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File-Sharing Software and Copyright Infringement: Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.

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Summary

In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.,* the Ninth Circuit Court of Appeals decision considered allegations of contributory and vicarious copyright infringement by companies which distribute peer-to-peer file-sharing software. The software facilitates direct copyright infringement by its users. It was the first decision to reject infringement claims against and find in favor of companies distributing the software. Other digital media file-sharing software decisions found in favor of the copyright holders, most notably *A & M Records, Inc. v. Napster, Inc.* and *In re: Aimster Copyright Litigation.* But in *Grokster*, the court granted summary judgment for the software companies. The court thus became the first to accept the "substantial, noninfringing uses" defense to copyright infringement liability, a defense developed by the U.S. Supreme Court in connection with use of VCRs in *Sony Corp. of America v. Universal City Studios, Inc.*

In a unanimous 9-0 decision, the U.S. Supreme Court reversed the Ninth Circuit, finding that it had misapplied *Sony*. It articulated a new standard for the imposition of secondary liability for copyright infringement, namely "inducement." The Court held 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." Although firmly rooted in the common law, the Court imported the "inducement" theory to copyright law much as it had adopted the safe harbor from infringement liability in *Sony* from patent law.

The Court was careful to preserve the safe harbor for dual use technology established by *Sony*. *Sony* bars secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. Inducement of copyright infringement may be demonstrated when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product.

This report examines the background and holding in *Grokster* and the doctrinal relationship between *Sony* and *Grokster*. It will not be updated.

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Background. When the Supreme Court held that distributors of peer-to-peer (P2P) file sharing could be secondarily liable for copyright infringement, it marked a milestone in a long line of cases addressing P2P technology. File-sharing software programs that create P2P network connections between computers enable the transmission of data and communications over the Internet. A variety of P2P programs, such as those offered by Grokster, Ltd., StreamCast Networks, Inc., and Kazaa BV, are typically available for free download from the distributors' websites. After installing a P2P program (called a "client application") onto the computer, the user runs the application to connect to the computers of other users of that particular P2P software who are currently "on-line." The client application allows users to "share" files located on their computer hard-drives. Once users make files available for sharing with each other, anyone who uses the same company's software to connect to the respective P2P network may locate and download desired files easily and at no cost. For example, a user of the Grokster software can directly access files saved on another Grokster user's computer hard-drive. Or a user can search for a particular file name, such as an MP3 song title, across all users' computers connected to the Grokster network, and then download a copy of that file onto his or her computer.

The motion picture and music recording industries brought several legal actions alleging copyright infringement against companies that distribute file-sharing software. Prior to the lower courts' decisions in *Grokster*, nearly all of the cases found in their favor, including *A & M Records, Inc. v. Napster, Inc.*[1] and *In re: Aimster Copyright Litigation*.[2] However, in *Metro-Goldwyn-Mayer Studios, Inc. (MGM) v. Grokster, Ltd.,*[3] the Ninth Circuit Court of Appeals held that the defendant software distributors were not liable for copyright infringement. *Grokster* was the first P2P file-sharing case involving allegations of music piracy where a court shielded P2P software companies from liability. In a decisive 9-0 opinion, the U.S. Supreme Court reversed the Ninth Circuit, importing a new theory of "inducement" as grounds for secondary liability for copyright infringement.[4]

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[1]239 F.3d 1004 (9th Cir. 2001).

[2]334 F.3d 643 (7th Cir. 2003), *cert. denied*, 124 S.Ct. 1069 (2004).

[3]259 F.Supp.2d 1029 (C.D. Ca 2003) *aff'd,* 380 F.3d 1154 (9th Cir.), *cert. granted,*125 S.Ct. 686 (2004).

[4]125 S.Ct. 2764 (2005).

Grokster Compared to Napster and Aimster. In the *Napster* and *Aimster* cases, the courts of appeals found that the plaintiff record companies would likely prevail on their contributory and vicarious infringement claims and granted preliminary injunctions against the defendant companies.[5] The distinction in the lower courts' analyses in *Grokster* was based, in large part, on the technological differences in the design of the file-sharing networks in question and, to some extent, judicial uncertainty over the reach of the standards articulated by the U.S. Supreme Court in *Sony Corp. of America v. Universal City Studios, Inc.*, discussed below.[6]

P2P Network Architecture. Unlike Napster and Aimster, Grokster and Morpheus software users connect to file-sharing networks with no central database server. Instead, Grokster provides for dynamic "root supernodes," which are a group of randomly chosen computers which are connected to the P2P network at a particular time. The Grokster software "self-selects" its supernode status for the day; a user's computer can function as a supernode one day and not on the following day.[7] As a supernode, a connected P2P user's computer acts as an index server, collecting information about shared files located on other users' computers. "Normal" Grokster clients connect to their "neighborhood" supernode to perform searches for files.[8] This creates a "two-tiered" organizational distribution structure for the P2P network, with groups of regular Grokster users clustered around a single supernode.[9] All search traffic and information passes through these personal computers acting as supernodes, none of which are owned or controlled by Grokster.

StreamCast's Morpheus network operates in an even more decentralized fashion. While Grokster licenses proprietary FastTrack networking technology from Sharman Networks, StreamCast bases its Morpheus program on a non-proprietary, "open-source"[10] technology called Gnutella.[11] The Gnutella P2P network can be accessed using not only Morpheus software, but also other Gnutella-based software distributed by companies such as "BearShare" and "LimeWire." Unlike Grokster's supernode architecture, search requests on the Gnutella network quickly pass from user to user until a matching file is found or until the search request expires. The

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[5]The Aimster service was renamed "Madster" in January 2002, after a ruling by the National Arbitration Forum panel that the Internet domain name "aimster.com" violated the trademark for America Online (AOL)'s instant messaging service. To avoid confusion, this report will continue to refer to the file-sharing service as "Aimster."
See [http://www.usatoday.com/tech/news/2002/02/01/aimster-now-madster.htm].

[6]464 U.S. 417 (1984).

[7]*Grokster,* 259 F.Supp.2d at 1040.

[8][http://www.grokster.com/us/help/faq/supernodes.html]. Only connected computers that are particularly powerful or have fast Internet connections are chosen as "supernodes."

[9]*Grokster,* 259 F.Supp.2d at 1040.

[10]Open-source refers to any software program whose "source code" (the software programming language) is made freely available to the public for use or modification by other software developers. *See* [http://www.opensource.org/docs/definition.php].

[11]*Grokster,* 259 F.Supp.2d at 1041.

query can reach over 8,000 other computers on the Gnutella network before expiring.[12]

While Aimster and Napster actively assisted their end-users in locating specific files and facilitating the download transactions, Grokster did not. Aimster provided an illustrated tutorial on its website which "methodically demonstrated how to transfer and copy copyrighted works over the Aimster system."[13] The Court of Appeals in *Aimster* referred to this tutorial as "an invitation to infringement," overtly encouraging Aimster users to infringe copyrights.[14] Aimster also offered its users a $4.95 monthly subscription service called "Club Aimster," which presented a list of the "top forty" most frequently downloaded songs by Aimster users. This list included a "play" button next to each song that allowed users to click on it to download the music file from wherever it was located in the Aimster network to the requesting member's computer.[15]

Napster similarly provided substantial assistance to its users through its server, maintained as a collective directory of shared MP3 files available on each connected user's computer. Any Napster user could run a search on this centralized index for a desired song title in order to transfer a copy of the file from the "host user" (the individual sharing the file) to the requesting user's hard-drive.[16]

Therefore, when the Napster network was terminated, its demise prevented any further P2P file-sharing among its users. But, because Grokster and StreamCast operate decentralized networks, "if either [company] closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption."[17] According to the district court in *Grokster*, this is a "seminal distinction" between Grokster/StreamCast and Napster which formed the basis for its judgment that the defendants did not materially contribute to infringing activity.[18]

Substantial, Noninfringing Use. In *Sony Corp. of America v. Universal City Studios, Inc.*, the U.S. Supreme Court found that despite the fact that video cassette recorders (VCRs) could be used by consumers to infringe copyrights, the manufacturer was not liable for contributory copyright infringement because the VCR was also capable of "substantial noninfringing uses."[19] The Court identified private, noncommercial "time-shifting" of broadcast television as a noninfringing fair use of

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[12]*See* [http://computer.howstuffworks.com/file-sharing.htm/printable].

[13]*Aimster,* 252 F.Supp.2d at 643.

[14]*Aimster*, 334 F.3d at 651.

[15]*Id.* at 652.

[16]*Napster,* 239 F.3d at 1012.

[17]*Grokster,* 259 F.Supp.2d at 1041.

[18]*Id.*

[19]*Sony,* 464 U.S. at 456.

the technology.[20] It emphasized that the primary use of the VCR was fair, and, in addition, it had the potential to be used for time-shifting sports, educational, religious and other programming that was authorized for copying or was copied without objection from the copyright holder.[21]

As a result of *Sony*, "substantial, noninfringing uses" became a judicially recognized defense to claims of contributory infringement. The defense arises from the Court's statement that "[t]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes... [I]t need merely be capable of substantial noninfringing uses."[22]

***MGM Studios, Inc. v. Grokster, Ltd.* in U.S. District Court.** Plaintiffs, twenty-eight organizations in the motion picture and music recording industries, sued several P2P companies for contributory and vicarious copyright infringement. The plaintiffs and defendant companies Grokster and StreamCast Networks filed cross-motions for summary judgment because "the only question before the [c]ourt (as to liability) is a legal one: whether [d]efendants' materially undisputed conduct gives rise to copyright liability."[23]

The court granted a summary judgment determining that defendant companies, Grokster and StreamCast, were not secondarily liable for copyright infringement committed by users of their P2P software (called Grokster and Morpheus, respectively).[24] Finding no evidence that the defendants had any material involvement in their users' infringing conduct, the court held that Grokster and StreamCast were not liable for contributory infringement.[25] Summary judgment was also warranted on the vicarious infringement claim, the court reasoned, because there was no evidence showing that the P2P companies had the right or ability to supervise the conduct of end-users of their products.[26]

***Grokster* in the Ninth Circuit Court of Appeals.** At the outset, the court noted that the question of direct infringement, although undisputed, was not before it. Rather, the issue was one of secondary, i.e., contributory and/or vicarious copyright infringement liability, and it fully concurred in the district court's "well reasoned analysis" that defendants were not liable under either theory.

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[20]Time-shifting refers to the practice of recording a broadcast television program to view it at a later time, and then erasing it afterwards. *See Sony,* 464 U.S. at 423.

[21]*Id.* at 444.

[22]*Id.* at 442.

[23] 259 F.Supp.2d at 1031.

[24]This summary judgment only applies to software offered by defendants Grokster and StreamCast Networks. Another defendant, Sharman Networks, distributor of Kazaa Media Desktop software, was not a party to these summary judgment motions. *See id.* at 1033.

[25]*Id.* at 1043.

[26]*Id.* at 1046.

Contributory Infringement. The three elements required to prove contributory copyright infringement are (1) direct infringement by a primary infringer, (2) knowledge of the infringement, and (3) material contribution to it. The Court of Appeals generally tracked the reasoning of the lower court and concluded that the architecture of the P2P systems precluded the defendants from having requisite knowledge of and making a material contribution to copyright infringement.

The court invoked the "staple article of commerce" doctrine from patent law, cited by the Supreme Court in *Sony,* for the proposition that "it would be sufficient to defeat a claim of contributory copyright infringement if the defendant showed that the product was 'capable of substantial' or 'commercially significant noninfringing uses.'"[27] With respect to the "knowledge"element, as interpreted by the Ninth Circuit in its *Napster* decision, this means

> [I]f a defendant could show that its product was capable of substantial or commercially significant noninfringing uses, then constructive knowledge of the infringement could not be imputed. Rather, if substantial noninfringing use was shown, the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing files.[28]

Because the court found it "undiputed" that P2P software is capable of substantial noninfringing uses, it would *not* impute constructive knowledge of infringement by others to the defendants. They must have "reasonable knowledge of specific infringement" to satisfy the knowledge requirement. And, the copyright owners needed to establish that the software distributors had specific knowledge of the infringement at a time in which they contributed to it and failed to act upon their knowledge. This knowledge standard was not met by the plaintiffs' after-the-fact notices of infringement. By the time they arrived, the software distributors could not prevent it.

In the court's view, the software distributors did not, indeed, could not materially contribute to infringing activity as a consequence of the P2P program structure. The distributors do not provide a "site and facility" for the infringement, the infringing material does not reside on the defendants' computers, nor do they have the ability to suspend user accounts.

Vicarious Infringement. In order to establish vicarious infringement, a copyright owner must demonstrate (1) direct infringement by a primary party, (2) a direct financial benefit to the defendant, and (3) the right and ability to supervise the infringers.[29] Concurring with the district court, the Court of Appeals found it to be undisputed that there was both direct infringement and the defendants benefitted financially from the software via advertising revenue. But "the right and ability to supervise infringers" was missing. The court reiterated the lower court's finding that the communication between the defendants and their users does not provide a point of access for filtering or searching for infringing files since infringing material and index information do not pass through the defendants' computers.

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[27] *Grokster,* 380 F.3d at 1160.

[28] *Id.* (Citations omitted.)

[29] *Id.* at 1164.

The Court of Appeals considered and rejected the argument that "a right to supervise" could be interpreted to mean that the distributors had a responsibility to alter the software to prevent users from sharing copyrighted files. Only where one has already been determined to be liable for vicarious infringement does a duty to exercise "police" powers arise. It also rejected what it characterized as a "blind eye" theory of liability for vicarious infringement. Copyright owners argued that "turning a blind eye to detectable acts of infringement for the sake of profit" should give rise to liability.[30] But the court found that there is no separate "blind eye" theory or element of vicarious liability that exists independently of the traditional elements of liability.

In closing, the Court of Appeals echoed the district court in declining to interpret copyright liability law to achieve public policy goals that might protect copyright owners' economic interests but alter general copyright law in profound ways with unknown ultimate consequences. That function is a prerogative best left to the Congress.[31]

The United States Supreme Court Decision in *Grokster*. In a decisive 9-0 opinion written by Justice Souter, the Court reversed the Ninth Circuit Court of Appeals. At the outset, the Court noted that the subject of the case is the "tension between the competing values of supporting creativity through copyright protection and promoting technological innovation by limiting infringement liability[.]"[32] To resolve the conflicting interests, it articulated a new standard for the imposition of secondary liability for copyright infringement.

Although the general principle of "inducement" as a basis for secondary liability has its roots in the common law, it had not heretofore been statutorily or judicially applied in a copyright context. Hence, the Court mirrored its previous adoption of patent law's "staple article of commerce" doctrine in *Sony* as a model for a copyright infringement safe-harbor rule by adopting an "inducement" rule, also codified in patent law,[33] as a basis for imposing secondary liability for infringement.:

> For the same reasons that Sony took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding 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*. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The

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[30] *Id.* at 1166.

[31] *Id.* at 1167.

[32] Metro-Gold-Mayer Studios Inc. v. Grokster, Ltd, 125 S.Ct. 2764, 2780.

[33] 35 U.S.C. § 271.

> inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.[34]

The Court's analysis of the doctrinal relationship between the two is discussed below.

The Court reviewed the evidence adduced in the trial court record supporting Grokster's successful motion for summary judgment. Although Grokster challenged petitioner MGM's assertion that nearly 90% of the files available for download were copyrighted works, the Court nonetheless concluded that the evidence gave reason to think that the vast majority of users' downloads were acts of infringement and that the probable scope of copyright infringement is "staggering."[35] Indeed, the P2P services conceded infringement in most downloads and actual knowledge of such from time to time from their users' e-mail questions. But there the Court parted dramatically from the Court of Appeals' conclusion that actual knowledge was legally insufficient to support a finding of liability since it did not arrive in a time or manner that allowed the P2P service to stop the infringing activity.

The Ninth Circuit had misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied, the Court explained. *Sony* bars secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. But the Ninth Circuit 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 third parties' infringing use. The rule of *Sony*, however, is not that broad. Inducement of copyright infringement may be demonstrated when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product.

At trial on the merits in *Sony,* evidence showed that the principal use of the VCR was for "time shifting," which the Court found to be a fair use. There 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."[36] Once sold, the distributor had no control over the device. In other words, the fact that the VCR promoted copying, much like a photocopy machine, did not suffice to impute to the distributor an intent that the device be used for copyright infringement. The majority of television content is, in fact, copyrighted content. But, because the primary use of the device was for permissible copying meant that the fact that Sony knew that it could or would be used for unauthorized copying as well was not sufficient to establish secondary liability for infringement solely from the sale of the product. The *Sony* doctrine "absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses and limits liability to instances of more acute fault than the mere

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[34] *Id.* at 2780. (Citations omitted; emphasis added.)

[35] *Id.* at 2772.

[36] *Id.* at 2777.

understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce."[37]

Conversely, in *Grokster*, the evidence of culpable intent to induce infringement by the P2P file-sharing services was great. The record indicated that Grokster used advertising — a classic means of inducement — to stimulate others to commit copyright infringement. The Court reviewed at length the efforts of StreamCast and Grokster to market to Napster users when that service was "under attack" for facilitating massive infringement. It cited internal communications at StreamCast discussing ways to market to Napster users that demonstrated "unequivocal indications of unlawful purpose."[38] Whether the internal communications were communicated outside of the company was immaterial because they functioned, under an inducement theory, "to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection." The Court reviewed three features of inculpatory evidence:

- Each company showed itself to be designed to satisfy a known source of demand for copyright infringement, the market for former Napster users. This evidenced a principal intent to bring about infringement;

- Neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software; and

- Both companies used a business model premised on increased advertising revenues commensurate with increased use of their software. Hence their profits depended upon high volume use of their software to infringe.

The Court was careful to note that neither factor alone would necessarily prove "inducement." For example, in a footnote, it noted that there is no absolute duty of a manufacturer to provide filtering tools:

> 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.[39]

It made a comparable observation with respect to the business model evidence.

In reversing the Ninth Circuit and remanding for action consistent with its opinion, the Court reiterated the continuing sound precedent of *Sony*:

> In sum, this case is significantly different from *Sony* and reliance on that case to rule in favor of StreamCast and Grokster was error. *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful

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[37] *Id.* at 2778.

[38] *Id.* at 2781.

[39] *Id.* at fn. 12.

> uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.
>
> MGM's evidence in this case most obviously addresses a different basis of liability for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.[40]

Concurring Opinions. Both Justice Ginsburg and Justice Breyer wrote a separate concurring opinion, each joined by two other Justices. Their opinions might be characterized as a colloquy over the methodology contemplated by *Sony* to determine whether a product is capable of substantial or commercially significant noninfringing uses. Both subscribed to the inducement theory of secondary liability adopted by the Court, but they differed in their views of how *Sony* should be applied to determine whether the product — the software in this case — was capable of substantial noninfringing use. Since it appears highly unlikely that Grokster and StreamCast will avoid secondary liability under the newly articulated inducement theory, the theories advanced in concurring opinions respecting *Sony's* applicability to them may ultimately be dicta.

Justice Ginsburg's opinion, with which Chief Justice Rehnquist and Justice Kennedy concurred, focused on and took issue with the evidence of substantial noninfringing use utilized by the lower courts to support and uphold the grant of summary judgment. Justice Ginsburg noted that, in *Sony,* the Court came to a conclusion about the VCR's respective use "enlightened by a full trial record."[41] To do so, it considered whether a significant number of potential uses of the VCR were noninfringing. Finding that the recorders were used primarily for time-shifting or for permissive copying, "there was no need in *Sony* to 'give precise content to the question of how much [actual or potential] use is commercially significant.' Further development was left for later days and cases."[42]

In *Grokster*, however, the lower courts found it "undisputed" that there were substantial noninfringing uses for the software. Justice Ginsburg's review of the record, however, indicated that there had been no finding of any fair use and only anecdotal evidence of noninfringing uses, all of which was almost exclusively based on evidence introduced by the defendants. She noted that in *Sony*, the plaintiff's owned less than 10 percent of the copyrighted television programing, and that testimony indicated that owners of at least another 10 percent of programing expressly consented to its home recording. But in *Grokster*, evidence suggested that between 75

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[40] *Id.* at 2782.

[41] *Id.* at 2783.

[42] *Id.* at 2784. (Footnote omitted.)

and 90 percent of the files traded were owned or controlled by the plaintiffs. That left approximately 10 percent of files exchanged as presumptively noninfringing. There was no evidence about the software's use for copying authorized by copyright holders. Anecdotal evidence about public domain material or promotional music that was available for file sharing by permission was not, in her view, sufficient to support a motion for summary judgment. And in addressing the issue of use, she focused narrowly, distinguishing between the software at issue and P2P technology in general:

> 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 the 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).*[43]

She concluded that if, on remand, summary judgment was not granted in favor of MGM based on a finding of "inducement," then a fuller record of the software's use would be necessary to determine whether the *Sony* product distribution's safe harbor would or could be met.

Justice Breyer, in an opinion concurred in by Justices Steven and O'Connor, agreed with the majority that the distributor of a dual-use technology may be liable for infringing activities of third parties where they actively seek to advance or induce the infringement. He took issue, however, with Justice Ginsburg's conclusion that the lower court record was insufficient to support a motion for summary judgment finding that the defendants' software had substantial noninfringing uses. He preferred not to "revisit" *Sony* and rejected what he characterized as Justice Ginsburg's "stricter" interpretation of the case.[44]

He read the evidence in *Sony* as establishing that "of all the taping actually done by Sony's customers, only around 9% was of the sort the Court referred to as authorized."[45] Hence, by analogy, he contends, that the showing in *Grokster* that as little as 10 percent of files shared were noninfringing was adequate to support a motion for summary judgment on the issue of demonstrating that the company's product is capable of substantial noninfringing use:

> 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

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[43] *Id.* at 2786. (Emphasis added.)

[44] *Id.* at 2787.

[45] *Id.* at 2788.

> appropriateness of looking to potential future uses of the product to determine its "capability."[46]

The opinion goes on to suggest the existence of a significant future market for noninfringing uses of Grokster-type P2P software. He acknowledged other now-unforseen noninfringing uses that may develop for P2P software, just as the home-video rental industry developed for the VCR. To the end of protecting the legal climate for developing technologies, Justice Breyer argues against any perceived modification of *Sony* that could have the effect of chilling new technology development:

> As I have said, Sony itself sought to "strike a balance between a copyright holder's legitimate demand for effective — not merely symbolic — protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." Thus, to determine whether modification, or a strict interpretation, of Sony is needed, I would ask whether MGM has shown that Sony incorrectly balanced copyright and new-technology interests. In particular: (1) Has Sony (as I interpret it) worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?[47]

Justice Breyer concludes that *Sony,* as he interprets the case, has provided entrepreneurs with needed assurance that they will be shielded from copyright liability as they bring valuable new technologies to market. He fears that a modified rule, one which requires a defendant to produce concrete evidence of use to avoid liability, or relies on a case-by-case balancing approach, would undercut *Sony*'s protection; it would increase the legal uncertainty that surrounds the creation of new technology capable of being put to infringing use and assert a chilling effect on technology development in general.

The majority opinion, however, does not specifically modify *Sony.* It leaves further consideration of *Sony* for a day when that may be required.[48] Instead, it imports into copyright law a new theory of secondary liability independent of *Sony's* "substantial noninfringing use," that is, the "inducement" of copyright infringement as shown by clear expression or other affirmative steps taken to foster infringement by third parties. Such a cause of action is tailored to the claims of the plaintiffs in *MGM v. Grokster*. Thus, despite conflicting interpretations of *Sony* expressed in the opinions of Justices Ginsburg and Breyer, *Grokster* can only signal views regarding any future revisions of the *Sony* doctrine.

Implications of *Grokster*. During the 108th Congress, some members of Congress reacted to the Court of Appeals *Grokster* decision by introduction of S. 2560, the Inducing Infringement of Copyrights Act of 2004, 108th Cong., 2d Sess. (2004). This bill would have codified criteria to establish secondary liability for copyright infringement. In view of the Court's express adoption of an inducement

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[46] *Id.* at 2789.

[47] *Id.* at 2791. (Citations omitted.)

[48] *Id.* at 2779.

standard as a basis for secondary liability for copyright infringement, the need and legislative momentum for such legislation are doubtful.

The majority opinion clearly affirms the technology-protective standard established by *Sony*. Distributors of dual-use technology capable of *both* infringing and noninfringing uses continue to have a high level of protection from secondary copyright infringement liability. This is particularly so for durable goods such as digital music recording devices that work in conjunction with authorized music sources, even if they may be used with an unauthorized source as well.[49]

Never overtly discussed, but implicit in *Grokster*, is an emergent legal treatment of divergent functional attributes of durable consumer goods versus software. Nowhere in the three opinions do any Justices express the view that software is to be treated differently from other fungible goods for liability purposes. Arguably, however, the inducement theory has, of necessity, been adopted to address business models using a more flexible software platform designed to promote "willful blindness" to the infringing activities of its users. So, for example, compression technologies as such may not be thwarted, but services designed to promote unauthorized digital transfer of motion pictures over the Internet will most certainly be affected by *Grokster*.

Supporters of the Ninth Circuit's interpretation of *Sony* may bemoan the loss of what many believe was a bright line test to determine whether a distributor is guilty of secondary liability for copyright infringement. Inducement is intent specific. Hence, a manufacturer's advertising, business model, and product design may be examined when challenged — as the Court did to those of Grokster and StreamCast. But, as both Justice Breyer and Ginsburg noted explicitly, P2P file-sharing technology was *not* on trial in Grokster, rather it was the use of the technology by two P2P services. The Court attempted to balance a need for effective protection of copyright with the need to promote technological innovation. To many, its decision in *Grokster* will promote this balance by continuing to offer considerable protection for dual-use technology while limiting the ability of a technology-user to ignore the consequences of business modeling predicated on the infringing use of technology.

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[49]Justice Breyer's concurring opinion states quite specifically that "*Sony*'s rule shelters VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disc burners, digital video recorders, MP3 players, Internet search engines, and peer-to-peer software. But Sony's rule does not shelter descramblers, even if one could *theoretically* use a descrambler in a noninfringing way." *Id.* at 2791 -2792. (Emphasis in original.)