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COMMUNICATIONS LAW UPDATE

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Supreme Court Holds Software Providers Who Induce Copyright Violations May Be Held Liable

In *Metro-Goldwyn-Mayer Studios Inc. et al. v. Grokster, Ltd., et al.,* No. 04-480 (S. Ct. June 27, 2005), the Supreme Court held that two companies that distributed peer-to-peer (P2P) file-sharing software, Grokster and Streamcast, could be held liable for the "staggering" scope of copyright infringement committed on file-sharing networks using their software. P2P software allows users to obtain copies of files that reside on computers of other users without the aid of any central index. This stands in contrast to the original Napster, which depended on a central index of files that it hosted in order to operate. The Ninth Circuit held that P2P companies could not be found liable for copyright infringements committed by users of their software.

The Supreme Court reversed, although its decision was less sweeping than the copyright holders had wished. They argued that the Court should revisit the *Sony* doctrine—set forth in *Sony Corp. of Am. v. Universal City Studios, Inc.,* 464 U.S. 417 (1984). In that case involving VCRs, the Court famously concluded that a company manufacturing a device that enabled copyright infringement could not be held liable for copyright infringement if the device was "capable of substantial noninfringing uses." Each side in *MGM* urged the Court to construe *Sony* in its favor, but the Court left the doctrine largely untouched. Instead, the Court focused on Grokster's and Streamcast's improper intent and concluded that a service "induces" infringement by distributing a product that enables infringement and clearly encouraging users to infringe.

Copyright law recognizes both direct and secondary liability for copyright infringement. Direct liability is imposed on the person who engages in the actual infringement. The doctrine of secondary liability allows courts to impose copyright liability on those who are not direct infringers but who are sufficiently related to the infringement that courts think they *should* be liable for the infringement. *MGM* involved "contributory" copyright infringement, which can be imposed on a person who (i) knows or has reason to know about the infringing conduct of another and (ii) induces, causes or materially contributes to that conduct.

In *Sony*, the copyright owners contended that the manufacturers of VCRs should be liable because VCRs enabled users to engage in copyright infringement and the manufacturers were well aware of the fact that they were doing so. The Supreme Court disagreed. Because the "time-shifting" of television programs was fair use and, because VCRs—which enabled the time-shifting of television

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programs—were "capable of substantial noninfringing uses," liability on a theory of contributory infringement was improper.

Grokster and Streamcast argued that they, too, were entitled to the *Sony* safe harbor on the grounds that their software was capable of substantial noninfringing uses. Although the evidence showed that the overwhelming majority of file-sharing was infringing, Grokster and Streamcast argued that noninfringing uses were made of the file-sharing networks, such as the sharing of public domain works and works by some musicians, authors or artists who wanted their works widely distributed for free. Further, they argued that they lacked knowledge of specific acts of infringement since the P2P technology, once downloaded to users' computers, operates without the distributors' direct involvement.

The copyright owners, by contrast, urged the Court to look to the actual uses to which a service or product is put in assessing whether a use was "substantial." According to them, whenever infringement is the "principal or primary use" of the product or service, even if it is capable of some "noninfringing use," the distributor should be subject to liability on a theory of contributory infringement.

Ultimately, the Court adopted neither view, finding in favor of the copyright owners but on narrower grounds than they had urged. The Court concluded that Grokster and Streamcast could be held liable for contributory copyright infringement not because of the nature of their software, but because they *intended* users to use the software to commit copyright infringement.

The central holding of the Court's opinion, written by Justice Souter, is straightforward:

> [O]ne 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.

All nine Justices agreed. The object of these two companies was readily apparent from the record evidence: according to the Court, the "[t]he unlawful objective" to enable copyright infringement on a mass scale was "unmistakable." While the Court clearly does not want to impede new technology, its palpable distaste for Grokster and Streamcast was no doubt an important factor in its decision.

A key question for future cases is how much and what kind of evidence would be needed to show inducement. Justice Souter's opinion provides some guidance. According to the Court, "[t]he classic instance of inducement is by advertisement or solicitation that *broadcasts a message designed to stimulate others to commit violations*" (emphasis added). The Court identified evidence that Grokster and Streamcast did exactly that. For example, Streamcast encouraged Napster users to switch to its own system as a substitute for Napster; Grokster circulated a newsletter linking to "articles promoting its software's ability to access popular copyrighted music"; and Grokster and Streamcast each helped users to "locat[e] and play[] copyrighted materials." One allowed users to search for "Top 40" songs, "which were inevitably copyrighted."

The Court described several other factors that supported the conclusion that Grokster and Streamcast "acted with a purpose to cause copyright violations." Because both companies targeted former Napster users, each "showed itself to be aiming to satisfy a known source of demand for copyright infringement." In addition, the fact that neither company "develop[ed] filtering tools or other mechanisms to diminish the infringing activity using their software... underscored [their] intentional facilitation of their users' infringement." (In a footnote, the Court declared that failing to adopt filters by itself would not support a finding of contributory infringement.) And, because Grokster and Streamcast each sold advertising and advertising revenue increased from "high-volume use" of their software, their business plan relied on infringement since the majority of the use was for infringement. Again, the Court emphasized that the advertising evidence by itself "would not justify an inference of unlawful intent," but "in the context of the entire record its import is clear."

Although the Court's opinion did not consider *Sony*, there were two concurrences, each of which drew three votes, that did, and each of which reached opposite conclusions.

Justice Ginsburg, joined by the Chief Justice and Justice Kennedy, concluded that Grokster and Streamcast would fail the *Sony* test, at least for purposes of summary judgment, on the ground that the "noninfringing uses" to which their software was put was not substantial enough. As Justice Ginsburg noted, the evidence of noninfringing use was largely anecdotal, while the evidence that "Grokster's and Streamcast's products were, and had been for some time, overwhelmingly used to infringe" was overwhelming.

Justice Breyer, however, joined by Justice Stevens (the author of *Sony*) and Justice O'Connor, concluded that the Grokster and Streamcast software had "substantial noninfringing uses." Justice Breyer's depiction of the *Sony* opinion discounted the Court's holding that time-shifting was fair use in order to show that the amount of non-infringing uses were similar; it is far from clear that *Sony* would have been decided the same way if time-shifting had been viewed as an infringing use.

What Are the Open Questions?

First, since millions of copies of P2P software are already loaded onto users' computers, it is not at all clear what remedy a court can order that will stop further infringement, and it is likely that the recording and motion picture companies will have to continue their efforts to litigate against individual file-sharers.

The key question is the effect of the decision on new hardware and software products that could be used to infringe on copyrights. For most companies, the decision will likely be neutral because the decision in *Sony* remains largely intact: a company that offers a product with substantial noninfringing uses, and where there is no clear evidence that it intends that users make use of the product to engage in copyright infringement, should continue to remain protected. The "inducement" theory will thus have limited impact on companies which are not in business to facilitate mass copyright infringement, so that products such as Windows Media Player and AOL Instant Messenger should fall within the zone of the protection afforded by the Court.

But it is less clear what will happen to software developed with an innocent intent but widely used to infringe. BitTorrent, for example, is software that revolutionizes the process of downloading large files. The creator of BitTorrent insists that the software was not developed to facilitate copyright infringement. But it is clear that the software is widely being used for that purpose—including in particular to download movie files. It remains to be seen whether BitTorrent or companies like it can avoid infringement liability simply by being careful about what they say internally or in public.

Particularly given the uncertainty of the fair use doctrine and the scope of what constitutes infringement in the digital age, claims of "inducement" may arise with respect to products that operate in a gray area of copyright law. Likewise, companies that offer products or software with multiple applications, some of which are clearly lawful, and some of which arguably infringe, may also face scrutiny, especially if they advertise potential uses. For example, Apple's "Rip, Mix, Burn" campaign drew attention to a use of computers with internal CD burners that many in the recording industry believed to enable copyright infringement. Under *Sony*, Apple would likely enjoy protection for selling computers with CD burners installed since they have many non-infringing uses, but under *MGM*, if a court concluded that creating mix CDs was not fair use, an inducement liability claim might be possible.

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Ultimately, the decision in *MGM* may be most significant for what it did not do. It left *Sony* largely untouched, and even referred to *Sony* as a "safe harbor" for technology companies. It therefore does not appear to impose any kind of a technological mandate requiring companies to *prevent* users from using their products to engage in infringement. By focusing on the intent of Grokster and Streamcast, however, the decision also sends a clear signal to technology companies that they must not *encourage* copyright infringement and that, more generally, they should respect—or at least not deliberately undermine—the interests protected by copyright laws.

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