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Grokster. Napster. Aimster. These weren’t even words 10 years ago, but recently these file-sharing services have been the subject of several appellate-court decisions—and now, a Supreme Court opinion. In its June 27 decision in Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., the Supreme Court took up the recording industry’s challenges to the Grokster file-sharing service and 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.”

This legal standard represents the Court’s effort to balance the needs of the recording industry (to have a workable standard for stopping wide-scale infringement) and those of the technology industries (to have a standard that allows them freedom to develop and market useful technologies, even though they might be used by others to infringe copyrights). And it is going to govern future cases not only in the copyright area, but almost certainly in the area of patents as well, since the Court looked to patent-law statutes and precedents to find this standard. But there will be challenges in its application, not the least of which is the difficulty in applying an intent-based standard in this area. As with so many of the Court’s forays into technology and intellectual property, the Grokster decision is closer to the first word on the subject than the last.

A LITTLE ABOUT FILE SHARING

Grokster, like its predecessors Napster and Aimster, is a file-sharing system. The Grokster software allows computer users to share files through “peer-to-peer networks,” so called because the software enables the users’ computers to communicate directly with one another. These networks are used by universities,
corporations, government agencies, and libraries, among other legitimate users, but their more frequent and well-known users were individuals who were utilizing Grokster’s (and co-defendant StreamCast Networks’) software to “share” copyrighted music and video files without authorization from the copyright holders.

While our parents taught us that “sharing” is something good, it is no good at all to copyright holders, to whom “sharing” is equivalent to “copyright infringement.” What the copyright law prohibits is “copying,” and so it is the copyster who is primarily liable for copyright infringement—recall the recent and highly publicized efforts to nab college students and other high-volume copyists for their widespread copyright infringement using such file-sharing technologies. But in cases like this, where the infringement is so widespread and diffused, it is difficult and inefficient to pursue only the actual infringers. So copyright law (like patent law) has developed doctrines allowing liability to be imposed upon those who do not actually infringe copyrights but who contribute to the infringement or induce others to infringe.

THE BETAMAX CASE

The Supreme Court’s previous effort to deal with these issues of indirect infringement (or “secondary liability”) was *Sony Corp. of America v. Universal City Studios, Inc.* (1984). The *Sony* case involved the long-lamented Betamax videocassette recorder (VCR), which Sony made and distributed. Copyright holders sued Sony, contending that Sony was contributorily liable for infringement by home users and others who taped copyrighted TV programs and viewed them later. The Court concluded that the individual users’ recording of copyrighted programs was “fair use” and thus immune from liability. As to Sony, the Court held that the only conceivable basis for imposing liability on it was under a “contributory infringement” theory—i.e., by selling VCRs to consumers, knowing that some would use the technology to infringe copyrights.

But the Court refused to hold Sony liable under that theory. Instead, noting the “historic kinship” between copyright law and patent law, it adopted a patent-law doctrine—the “staple article of commerce doctrine”—which holds that distribution of a component of a patented device will not infringe the patent if it is suitable for use in other, noninfringing ways. Because the VCR was “capable of commercially significant noninfringing uses,” its manufacturer, Sony, could not be held liable based solely on its distribution. This holding left some breathing room for innovation and for legitimate competition. At the same time, however, the *Sony* Court noted that a device that can be used only for infringing purposes creates a fair inference that the manufacturer and distributor intended the device to be used for infringement.

THE GROKSTER DECISION

Fast-forward 21 years to 2005. The Betamax now seems as quaint (and about as old) as the cotton gin, because copyrighted material is flying freely through cyberspace. But the Betamax decision is still the law of the land. Both Napster (in its original incarnation; it exists now as a fee-based downloading service) and Aimster were effectively shut down by federal court of appeals decisions finding them liable for secondary infringement. Grokster, however, fared better in the court of appeals—the Ninth Circuit threw out the copyright holders’ case against Grokster and StreamCast on summary judgment, reasoning that *Sony* held that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability unless the distributor had actual knowledge of specific cases of infringement and failed to act on that knowledge.

A unanimous Supreme Court concluded that the Ninth Circuit had read too much into the *Sony* decision. Writing for the unanimous Court, Justice Souter first differentiated between two theories of indirect infringement (the lines between which “are not clearly drawn”): intentionally inducing or encouraging copyright infringement on the one hand, and vicariously infringing (profiting from others’ direct infringement while declining to exercise a right to stop or limit it) on the other. (The Supreme Court’s opinion in *Grokster* addressed only the former.) The Court then held that *Sony’s* rule was that secondary liability was barred based on presuming a defendant’s intent to cause infringement solely from the design or distribution of its otherwise useful product; *Sony* did not prohibit liability where the defendant’s actions go beyond mere manufacture and distribution of a product that aids infringement but include statements or actions directed to promote infringement.
In evaluating the record that was before the lower federal courts, the Court found evidence aplenty that Grokster and StreamCast “communicated an inducing message to their software users.” Among other things, the Court noted the companies’ targeted efforts to appeal to groups of known infringers, i.e., Napster users (Napster then being under attack in the federal courts “for facilitating massive infringement”), including the companies’ adoption of the trade names “OpenNap” (StreamCast’s software program), “Swaptor” (Grokster’s “suggestively named” software), and “Grokster” itself (a play on “Napster”). StreamCast also appealed to former Napster users with communications like “When the lights went off at Napster . . . where did the users go?” And its chief technology officer claimed that its “goal is to get in trouble with the law and get sued. It’s the best way to get in the new[s].” Both companies sent users communications promoting their ability to provide users with particular, popular copyrighted materials, like Top 40 songs.

The Court drew three conclusions of significance from this evidence: One, the companies were seeking to tap the market of known former Napster users, “a known source of demand for copyright infringement.” Two, neither company, despite its knowledge, attempted to develop filtering tools. (The Court added in a footnote that this factor by itself would not be enough, in the absence of an affirmative duty, to prevent infringement, because it “would tread too close to the Sony safe harbor.”) And three, because both companies made money by selling advertising space sent to the screens of users of their services, the companies’ business strategies seemed to suggest that increasing their software’s use among their biggest market (former Napster users seeking an alternative for downloading copyrighted materials without permission or payment) would also increase their ad revenues. The Court reiterated that this evidence was separate and apart from presuming or imputing fault based solely on the distribution of the companies’ software programs and would allow an inference of “a patently illegal objective from statements and actions showing what that objective was.”

Because Grokster and StreamCast had won the case on summary judgment in the lower courts, the Supreme Court vacated the decision of the Ninth Circuit and returned the case to that court for reconsideration of MGM’s own motion for summary judgment, strongly suggesting that, because “[t]here is substantial evidence in MGM’s favor on all elements of inducement,” the Supreme Court would have been inclined to grant MGM’s motion.

**WHAT GROKSTER MEANS**

Many Court watchers and commentators thought the Court was going to use the Grokster case to narrow or redefine the Sony defense to indirect infringement. While the Court said the Ninth Circuit had read too much into that earlier decision, Justice Souter’s opinion for the Court explicitly said that “[i]t is enough to note that” the Ninth Circuit had erred in its reading of Sony, and it “le[ft] further consideration of the Sony rule for a day when that may be required.” Three Justices (Justice Ginsburg, whose concurring opinion was joined by Chief Justice Rehnquist and Justice Kennedy) thought the Grokster and StreamCast software was not a “staple article of commerce” with “substantial noninfringing uses.” And three other Justices (Justice Breyer, joined by Justice Stevens—the author of Sony—and retiring Justice O’Connor) thought that Grokster did pass the Sony test. So the future of the Sony standard is itself left to the future, and even after Grokster, it is not clear how many Justices (if any at all) may think the legal standard merits revisiting.

But how will the Grokster test ("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") play out in its application? Intent is one of the most difficult things to prove in the law (“The Devil himself knoweth not the thought of man,” wrote one British judge in the 15th century), and because even the Devil himself cannot know a person’s actual intent, it is inevitably proved circumstantially. This may portend lots of aggressive discovery disputes, as plaintiffs seek discovery of files, e-mails, letters, and other communications as they look for the circumstantial evidence that the accused inducer of infringement intended to get others to commit the acts of infringement.

At a minimum, though, lower courts seeking to apply the Grokster test (which one academic was quoted as calling a “Rorschach test”) need not limit their inquiry to parsing and deconstructing the text of the Grokster opinion itself. Rather, courts and litigants can take the lead of the Supreme Court in both Sony and Grokster and look to the analogous area of patent law, which already has a fairly well-developed body of
case law dealing with active inducement of patent infringement. (And vice versa: The Federal Circuit, lower courts, and litigants faced with inducement-of-patent-infringement cases would do well to address Grokster along with the existing patent precedents. For example, aggrieved patent owners may well prove inducement by offering evidence of targeted marketing or other acts underscored in the Grokster decision. On the other hand, even after Grokster, it is still unclear whether active inducement requires just an intent to cause the infringing action or something more—like a specific intent to infringe a known copyright or patent.) Those patent precedents may still be hard to apply in a given case, but they do provide an existing vein of decisional law that is available immediately to litigants faced with post-Grokster induced-infringement cases.

But even aside from the issue of inducement to infringe, remember that the Court in Grokster did not speak to the issue of vicarious liability. The Ninth Circuit summarized the vicarious-liability standard as “[t]urning a blind eye to detectable acts of infringement for the sake of profit”; the Supreme Court described it as “allow[ing] imposition of liability when the defendant profits directly from the infringement and has a right and ability to supervise the direct infringer, even if the defendant initially lacks knowledge of the infringement.”

This may be the next fertile field for litigation: The Court in Grokster repeated the comment from Justice Stevens’ opinion in Sony suggesting that “the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn.” Moreover, the Seventh Circuit in the Aimster case said, “How far the doctrine of vicarious liability extends is uncertain.” This sort of uncertainty in the law puts a premium on careful trial strategy and creativity in legal arguments.

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