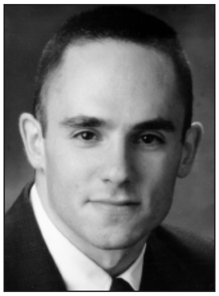
Supreme Court's Inducement Theory in *Grokster* Creates Uncertainty



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In Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.,[1] commonly referred to as the Grokster decision, the United States Supreme Court adopts a new "active inducement" theory for secondary liability in copyright law. The Court's decision emphasizes particularly stark evidence that it finds would support liability for active inducement. However, the opinion leaves uncertainty regarding what other activity might trigger liability under the new theory. This uncertainty will require further litigation to define the metes and bounds of active inducement in copyright law.

At issue in the *Grokster* decision is electronic file sharing over the Internet using peer-to-peer software distributed by defendants Grokster and Streamcast (collectively referred to as "Grokster"). Grokster's system is unlike the system implicated in the recent Napster litigation,[2] because Grokster's system does not include a central index of the files available for sharing on the system. Rather, Grokster's system employs a decentralized structure, in which a search for a particular file, typically music or video, is broadcast through other users' computers running Grokster's software, rather than a central index, to identify the file being sought. Evidence indicates that billions of files have been shared using the Grokster system, with at least ninety percent of these files including copyrighted material.

The District Court for the Central District of California granted summary judgment in Grokster's favor, finding that Grokster's system falls under the safe harbor provision of the Supreme Court's *Sony* opinion[3] because the system is capable of substantial noninfringing uses. The Ninth Circuit affirmed. On June 27, 2005, the Supreme Court issued its unanimous decision,[4] both vacating the District Court's ruling in Grokster's favor and stating the new active inducement theory for secondary liability in copyright law. In its decision, the Court articulates the test for active inducement as follows:

> [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.

The Court identifies evidence that it feels would support Grokster's liability under the new inducement theory. This evidence ranges from internal memoranda and advertisements showing Grokster's desire to become the next Napster, to Grokster's business model and the lack of filtering software to stop infringing content from being shared on Grokster's system. Based on the limited record before the Court, the Court finds evidence of Grokster's clear intent to induce infringement, its affirmative steps to promote infringing activities, and underlying direct infringement by Grokster's users.

In anticipation of the *Grokster* opinion, some critics argued that previous decisions such as *Sony* do not properly balance the competing interests of copyright owners and technology developers. However, an advantage of the *Sony* safe harbor protection against secondary liability is its certainty. Technology companies such as peer-to-peer software producers continue to innovate knowing that, as long as their software is "merely capable of substantial noninfringing uses," they will not be held liable for contributory infringement. Proponents argue that Sony's "bright line" test is necessary for such innovation to flourish.

The *Grokster* opinion, by its own account, does not disturb the *Sony* safe harbor. However, the Court's articulation of the active inducement theory for secondary liability may blur the line between lawful and unlawful conduct. This blurring is accentuated in view of the facts before the Court in the *Grokster* decision. The egregious conduct of Grokster and the fact-intensive inquiry involved in making an intent determination allow the Court to highlight certain evidence, while providing little guidance of what other evidence would be relevant for an intent determination in future disputes.

For example, when examining intent, the Court identifies promotional materials showing Grokster's intent to become the "next" Napster. The Court specifically highlights a Grokster advertisement touting itself as the "#1 alternative to Napster" as indicative of the evidence to consider when making the intent determination under the active inducement theory. However, the Court fails to emphasize that it is unclear whether these advertisements were ever publicly released. This material may illustrate potential bad faith on the part of Grokster. However, the factual inquiry should also ask why such material might not have been released. It is possible that Grokster decided against running the advertisements. Such a decision could be indicative of an intent to act lawfully, rather than unlawfully.

The Court also looks to Grokster's business model as evidence showing an intent to induce infringement. For example, the Court focuses on Grokster's revenue stream that is based on maximizing the number of its users to which it can stream advertisements. The Court finds such a business model to be indicative of intent because Grokster knows that an increase in the number of users will result in an increase in infringement. However, it is difficult to differentiate Grokster's business model from that of any other company—to maximize its customer base. Such a business model, in and of itself, does not appear to be flawed, and the Court's emphasis of this evidence may result in increased scrutiny of similar models for future alleged infringers.

Other evidence highlighted by the Court in determining Grokster's intent is its failure to make an effort to filter copyrighted material from users' downloads. The Court prefaces analysis of these facts with a disclaimer that such evidence alone is not enough to find intent if the device at issue has substantial noninfringing uses, because such a holding "would tread too close to the *Sony* safe harbor." However, the Court does not address the realities of the technology at issue. There appears to be ample evidence that Grokster has no control over its users and cannot filter content, even if it so desired. For example, the Ninth Circuit notes that Grokster's software, unlike its predecessor Napster, is based on a decentralized architecture and that Grokster has little control of its product once it is downloaded by end users. Grokster's failure to employ filters has less probative value for an intent determination once the technological realities are factored into the analysis.

Although one can argue about whether the evidence examined by the Court is probative of an intent to induce infringement, one probable result of the Court's new theory of liability is an onslaught of discovery in future cases directed to these issues. Intent is, by its nature, a fact-intensive inquiry and difficult to prove without extensive discovery. The Court's decision will lead to increased litigation costs in the form of more intrusive discovery focused at finding any and all evidence probative of intent.

In addition, future discovery costs may increase due to uncertainty surrounding what other types of evidence should or should not be determinative of a finding of intent to induce. There is a large gap between the conduct examined and found to be lawful in *Sony* and the flagrant conduct supporting inducement examined in *Grokster*. It is likely that future disputes will include defendants falling somewhere in the middle between the two extremes, and the *Grokster* decision provides little guidance for courts faced with such cases.

For example, future technology companies will probably attempt to avoid much of the conduct highlighted in the *Grokster* decision, such as the advertisements inducing users to infringe. However, it is difficult to see how companies can avoid the basic business model associated with maximizing customers. In addition, future peer-to-peer technology appears to be moving towards further decentralization, making it difficult or impossible to employ devices to stop infringing conduct. Will this evidence be sufficient to expose the producer of the next-generation peer-to-peer system to liability under the inducement theory articulated in *Grokster*? Similarly, what other technologies capable of both infringing and noninfringing uses may fall prey to an inducement theory of liability because of a carelessly worded advertisement? These questions will only be answered with time.

The Court states that mere knowledge of infringement is insufficient. Under the Court's inducement rule, there must be "purposeful, culpable expression and conduct." Nevertheless, technology companies may find that the world after the *Grokster* decision is a more dangerous place. The bright line of the *Sony* safe harbor no longer acts as an absolute shield for technology capable of substantial noninfringing uses. The new inducement theory will likely require years of litigation and intrusive discovery to flesh out exactly what conduct is sufficient to show intent to induce others to infringe. Until then, companies can try to do the right thing, avoid the conduct the Court focused on in *Grokster*. IPT

ENDNOTES

1. 125 S. Ct. 2764 (2005).
2. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).
3. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
4. Although all of the Justices agree upon the new active inducement theory, the Court is anything but unified regarding the future viability of the *Sony* safe harbor. The majority opinion of the Court touches upon the *Sony* decision, but argues that the inducement theory neither supplants nor is inconsistent with the *Sony* safe harbor. A first concurrence argues that Grokster's system does not have substantial noninfringing uses and therefore does not fall under the *Sony* safe harbor provision. A second concurrence reaches an opposite conclusion in its treatment of Grokster's system under *Sony*, finding that Grokster's system is capable of substantial noninfringing uses.