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Supreme Court's *Grokster* Ruling Reaffirms Key Aspects of *Sony* Defense Consistent With WRF *Amicus* Filings But Creates New Theory of Liability for Intentional, Active Inducement

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Washington, DC-The last day of the October Term 2005 brought the long awaited answer to the most heavily briefed and carefully watched copyright decision in the last 20 years. In , No. 04-480 (U.S. June 27, 2005), the Court addressed the question whether Grokster and Streamcast, two distributors of peer-to-peer file sharing software who targeted ex-users of the outlawed Napster network, could be held secondarily liable for copyright infringement on the basis of the direct infringement committed by their end-users under the circumstances of the case. In its unanimous decision, the Court rejected copyright owners' invitation to rewrite its prior decision in *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417 (1984), holding that secondary liability cannot be based on the providing of a technology that is capable of substantial non-infringing use, even if done with knowledge that the technology will be used to infringe. The Court instead reaffirmed the balance struck in *Sony* between encouraging the use and fostering the development of new technology and the protection of copyrighted material.

In *Grokster*, the owners of copyrights in motion pictures, sound recordings, and musical works brought suit against two entities that distribute peer-to-peer file sharing software. They alleged that the software providers were indirectly liable for acts of infringement committed by end-users of their products under theories of contributory and vicarious liability and urged the Supreme Court to dilute its core holding in *Sony* by suggesting that the volume of infringement over peer-to-peer file sharing networks altered the

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carefully struck balance between promoting technology and protecting copyrighted material. Both the district court and the Ninth Circuit Court of Appeals ruled against the copyright owners, holding that the peer-to-peer software itself was capable of substantial non-infringing use and thus its distribution could not result in copyright liability.

The Supreme Court agreed with this core ruling of the Ninth Circuit, reaffirming the principle that indirect copyright liability cannot be based on the distribution of a product or service that is capable of substantial non-infringing use, even if done with knowledge that the technology will be used to infringe. *Grokster*, Slip op. at 17-19; *id.* at 1 (Breyer, J., concurring). At the same time, the Court made clear that *Sony* did not insulate enterprises such as Grokster and Streamcast from copyright liability for affirmatively inducing their subscribers to infringe copyrighted works. On the facts before it, the Court found that there was sufficient evidence of an "object of promoting [peer-to-peer software's] use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement," to preclude summary judgment for the defendants. The Court focused on the particular conduct of these two defendants, including active recruitment of an infringement oriented subscriber base from the old Napster and advertising encouraging infringement. The Court avoided announcing any *per se* rules for finding secondary liability in the case of "dual-use" technology distribution, but reiterated the clear *Sony* rule that the distribution of such technology known to be capable of both infringing and non-infringing uses, without more, does *not* constitute indirect copyright infringement.

While reaffirming the core principles of *Sony*, the Court adopted an entirely new theory of secondary copyright infringement based on intentional, active inducement. This theory has its roots in patent law, and has never before been applied as the basis for copyright liability. The Court cited the need for "active steps . . . taken to encourage direct infringement" as well as the proscribed object or intent to do harm. In particular, the Court, emphasizing "the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential," says that distribution of a product with knowledge of infringing uses, as well as "ordinary acts incident to product distribution, such as offering customers technical support or product updates" would not support liability in themselves. Moreover, the failure to take affirmative steps to prevent infringement would not, in itself, support liability. However, the Court elsewhere suggests that the distribution of the product, with the proscribed intent, could be sufficient, if coupled with "encouragement" for unlawful use.

Attorneys at WRF filed two separate *amicus* briefs on behalf of consumer electronics and computer industry groups, Internet service providers, and technology and related trade organizations asking the Court to reaffirm the core principles of the *Sony* defense. (Brief of Amici Curiae: The Consumer Electronics Association, The Computer & Communications Industry Association, and The Home Recording Rights Coalition; Brief of Internet Amici: Cellular Telecommunications & Internet Association, United States Telecom Association, US Internet Industry Association, AT&T Corp., BellSouth Corporation, MCI, Inc., SAVVIS Communications Corporation, SBC Internet Services, Inc., Sun Microsystems, Inc., and Verizon Communications Inc.). Both *amicus* briefs argued that any wholesale revision of the *Sony* doctrine or principles of secondary liability, including creation of a new inducement theory of liability, should be undertaken by Congress not the Court.