



Grokster Case Decided

Supreme Court Unanimously Reaffirms Sony and Announces Standard for Active Inducement of Copyright Infringement

June 27, 2005

Today, the United States Supreme Court issued its much-anticipated decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* (“Grokster”). In a unanimous opinion written by Justice Souter, the Court reaffirmed the rule of law it announced in 1984 in *Sony v. Universal*¹ (“*Sony-Betamax*”), but held that the *Sony-Betamax* rule does not immunize the distributor of a technology from liability for secondary copyright infringement where the distributor of the technology *intentionally induces* direct infringement by others. The Supreme Court vacated the Ninth Circuit’s decision and remanded the case to the trial court, finding there was “substantial evidence” from which the trial court could find defendants Grokster and StreamCast, both distributors of peer-to-peer file sharing software, liable for inducing copyright infringement by end-users of their software.

Justice Ginsberg filed a concurring opinion, in which Chief Justice Rehnquist and Justice Kennedy joined. Justice Breyer also filed a concurring opinion, in which Justice Stevens and Justice O’Connor joined. The text of the Supreme Court’s decision (including the concurring opinions) can be found at <http://a257.g.akamaitech.net/7/257/2422/27jun20051200/www.supremecourtus.gov/opinions/04pdf/04-480.pdf>.

Overview

The Court today reaffirmed the rule of law it announced in 1984 in *Sony-Betamax*, but held that the staple-article-of-commerce doctrine announced in *Sony-Betamax* does not immunize a distributor of a technology from liability for secondary copyright infringement where the distributor of the technology intentionally induces direct infringement by others. 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.”

The Court vacated the Ninth Circuit’s decision and remanded the case to the trial court, finding there was substantial evidence from which the trial court could find defendants Grokster and StreamCast, both distributors of peer-to-peer file sharing software, liable for inducing copyright infringement by their end-users based on evidence of Grokster’s and StreamCast’s “words and deeds going beyond distribution,” words and deeds that the trial court could conclude

For additional information concerning any of the material in the report, please contact Jim Burger at jburger@dowlohmes.com or at 202/776-2300 or Jon Hart at jhart@dowlohmes.com or at 202/776-2819.

showed an intent to induce and profit from third-party acts of copyright infringement.

Background

The District Court Decision

This case began in 2002 when plaintiff motion picture studios, music publishers and songwriters brought suit alleging that the vast majority (nearly 90%) of files exchanged through the use of peer-to-peer file-sharing software offered by defendants was copyrighted material, of which most (approximately 70%) was owned by plaintiffs.² The question presented in the case was whether Grokster and StreamCast could avail themselves of the staple article of commerce defense under the U.S. Supreme Court's decision in *Sony-Betamax*, which held that distribution of a product that was used for, or was "merely ... capable" of substantial noninfringing use did not constitute secondary copyright infringement.

On cross-motions for summary judgment, the trial court held that Grokster and StreamCast could not be found secondarily liable for copyright infringement committed by users of their software because neither defendant had any actual knowledge of specific infringement or material involvement in the trading of copyrighted materials by end-users and neither defendant had the right and ability to supervise their end-users' conduct.

The Impact of Napster

The copyright owners appealed this decision to the U.S. Court of Appeals for the Ninth Circuit. The Ninth Circuit had previously considered the circumstances under which a distributor of peer-to-peer software could be held secondarily liable for copyright infringement in *Napster I*.³

In *Napster I*, the Ninth Circuit held that peer-to-peer software distributor Napster could not avail itself of the staple article of commerce doctrine announced in *Sony-Betamax* because Napster had actual, specific knowledge of direct infringement by end-users of its software. The Ninth Circuit interpreted *Sony-Betamax* as

"declin[ing] to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and 'substantial noninfringing uses.'" It concluded that Napster *could* be held liable for contributing to copyright infringement committed by its users because Napster actually knew of specific infringing materials traded on its system, had the ability to remove or block access to the system by suppliers of the infringing material, and nevertheless failed to block such access or to remove the material.

The Ninth Circuit Decision

The Ninth Circuit affirmed the district court's partial grant of summary judgment in favor of defendants Grokster and StreamCast, concluding that, under its earlier decision in *Napster I*, Grokster's and StreamCast's distribution of the current versions of their software did not give rise to liability under either a contributory infringement or a vicarious infringement theory.⁴

Specifically, the Ninth Circuit found that the defendants' software was both capable of and was actually being used for noninfringing uses, including trading files of materials owned by copyright owners who permitted their work to be distributed via the software and trading public domain works not protected by copyright. Therefore, under the Supreme Court's *Sony-Betamax* decision, the defendants could avail themselves of the staple article of commerce doctrine unless they were found to have "reasonable knowledge of specific infringement" at a time when the infringement occurs.

In that regard, the court found that the plaintiffs had failed to raise sufficient genuine issues of material fact because, unlike Napster's more centralized system, StreamCast's decentralized network and Grokster's quasi-decentralized, supernode-type network included no central index, neither defendant hosted infringing files or lists of infringing files, and the defendants did not regulate or provide access to the infringing files.

The court also held that defendants' failure to modify their software to filter out specific infringing files or monitor users' access to the system via a login and password system did not give rise to liability under a theory of contributory infringement.

The Supreme Court's Decision

Court Reaffirms Sony-Betamax

- The Court rejected the invitation of the copyright owners to revisit the holding of *Sony-Betamax* that a distributor of a product that is capable of substantial noninfringing uses is not secondarily liable for copyright infringement based merely on its distribution of the product. Instead, the Court reaffirmed its holding in *Sony-Betamax*, stressing that "mere knowledge of infringing potential or of actual infringing uses would not be enough . . . to subject a distributor to liability."
- The Court also expressly rejected the copyright owners' invitation to revisit the holding of *Sony-Betamax* to add a "more quantified description" of the point of balance between infringing and noninfringing uses at which liability may occur. (The plaintiffs had argued that a defendant seeking to invoke the staple article of commerce doctrine in its defense should have to prove that the *primary* use of its technology was non-infringing.)

Court Adopts Active Inducement Test

- The Court adopted an active inducement test intended to "balance the interests of protection and innovation." Just as the *Sony-Betamax* court adopted the staple-article-of-commerce doctrine from patent law, the *Grokster* court looked to patent law as the source of its active inducement standard. The Court's inducement test would not subject a product distributor to liability for "mere knowledge of infringing potential or of actual infringing uses" or for "ordinary acts" incident to product distribution, such as offering customers technical support or product updates. The Court also stressed that "in the absence of other evidence of intent, a court would be

unable to find contributory infringement merely based on a failure to take affirmative steps to prevent infringement, if the device is otherwise capable of substantial noninfringing uses." Rather, 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." The plaintiff must show "purposeful, culpable expression and conduct" intended to induce infringement. Accordingly, the Court emphasized, the announcement of the inducement standard, coupled with reaffirmation of the staple-article-of-commerce doctrine announced in *Sony-Betamax*, would not "compromise legitimate commerce or discourage innovation having a lawful promise."

Court Rejects Ninth Circuit's "Reasonable Knowledge of Specific Infringement" Test

- The Supreme Court rejected the Ninth Circuit's interpretation of *Sony-Betamax* as requiring "reasonable knowledge of specific infringement" at a time when the infringement occurs. The Court explained that, while *Sony-Betamax* "limits imputing culpable intent as a matter of law" from the characteristics or uses of a distributed product, "nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence." Where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows "statements or actions directed to promoting infringement," *Sony-Betamax* will not preclude liability. The Ninth Circuit erred by ignoring evidence presented in the trial court of "words and deeds going beyond distribution" that could demonstrate an intent to induce and profit from acts of copyright infringement committed by end-users of the peer-to-peer file sharing software distributed by defendants Grokster and StreamCast.

Consequences of Decision

- The decision that Grokster and StreamCast may be held secondarily liable for copyright violations may set the stage for a more aggressive legal assault by copyright owners on distributors of peer-to-peer software -- a more promising legal avenue than suing infringing users directly.
- The decision may slow, but will not stop, illegal file sharing. According to a report by MAGNA Global USA media analyst Brian Wieser, the decision will likely "push P2P (peer-to-peer) file trading further underground toward services that are literally and figuratively beyond the reach of the law."
- The Court's adoption of a clearly defined active inducement test for secondary liability will likely relieve some of the pressure on

Congress to enact legislation along the lines of the Induce Act that was unsuccessfully introduced last year.

- The Court's reaffirmation of the *Sony-Betamax* doctrine will leave inventors free to innovate without fear that they will be held secondarily liable for copyright infringement if their inventions are misused for unlawful purposes more than they are used for lawful, noninfringing purposes.

Next Steps

The case will now return to the District Court for the Central District of California for further proceedings. The Supreme Court specifically suggested that "[o]n remand, reconsideration of [plaintiff's] motion for summary judgment will be in order."

¹ 464 U.S. 417 (1984). The *Sony-Betamax* decision is available at <http://caselaw.lp.findlaw.com/scripts/getcase.pl?navby=case&court=us&vol=464&page=417>.

² *Metro-Goldwyn-Mayer Studios Inc. v. Grokster*, 259 F.Supp.2d 1029, 1033 (C.D.Cal. 2003). Available at [http://www.cacd.uscourts.gov/Cacd/Recent PubOp.nsf/0/b0f0403ea8d6075e88256d13005c0fdd/\\$FILE/CV01-08541SVW.pdf](http://www.cacd.uscourts.gov/Cacd/Recent%20PubOp.nsf/0/b0f0403ea8d6075e88256d13005c0fdd/$FILE/CV01-08541SVW.pdf)

³ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). Available at <http://caselaw.lp.findlaw.com/scripts/getcase.pl?court=9th&navby=case&no=0016401&exact=1>.

⁴ *Metro-Goldwyn-Mayer Studios Inc. v. Grokster*, 380 F.3d 1154 (9th Cir. 2004). Available at <http://caselaw.lp.findlaw.com/data2/circs/9th/0355894p.pdf>