



INTELLECTUAL PROPERTY

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What *Grokster* Means for Executives

EXECUTIVES WITH TEENAGE CHILDREN HAVE PROBABLY heard of *Grokster*, a distributor of software that allows users to share music and video files through a peer-to-peer network. But now executives need to know what a recent U.S. Supreme Court ruling against *Grokster* may mean for their businesses.

On June 27, in *Metro-Goldwyn Mayer Studios Inc., et al. v. Grokster, et al.*, the U.S. Supreme Court unanimously reversed the 9th U.S. Circuit Court of Appeals and narrowed the safe-harbor provision established in *Sony Corp. of America, et al. v. Universal City Studios Inc., et al.*

In *Sony*, also known as the Betamax case, the court created a safe harbor protecting manufacturers from liability for contributory copyright infringement if their product was capable of substantial non-infringing uses. In *Grokster*, to the consternation of teenage music fans everywhere, the court found that *Sony* did not necessarily foreclose liability against a manufacturer that actively induced users' infringement.

Justice David Souter, writing for the majority, explained: The *Sony* rule bars courts from imputing culpable intent from the characteristics or uses of a distributed product, even if the distributor knows customers will use the product to infringe a copyright, but the *Sony* rule does not foreclose liability where there is evidence of "statements or actions directed to promoting infringement." In other words, simply distributing software people can use to illegally share copyrighted music or movies does not create liability but promoting illicit sharing does.

The *Grokster* court distinguished a business' mere knowledge of users' potential or actual infringement, or ordinary acts incident to product distribution, such as ordinary technical support and product updates, acts which would not constitute inducing infringement. However, in *Grokster*, the court found ample evidence of statements and actions promoting infringement: "The record is replete with evidence that from the moment *Grokster* and *StreamCast* began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement."

These active steps included: responding to users' e-mail inquiries with information assisting them in infringing copyrighted files; marketing that encouraged former users of the defunct *Napster* system (a central-server-based internet file sharing system previously enjoined for copyright infringement) to use their alternative systems; making no effort to use available technology to reduce infringement; and utilizing business models generating advertising revenue from high-

volume use of the system, of which about 90 percent was likely infringing sharing of copyrighted files.

As a starting point, manufacturers and sellers of technology capable of infringing as well as legitimate uses would be well-advised to use the foregoing as a "what not to do" list.

Will *Grokster* chill innovation? Hopefully not. *Grokster* clarified that *Sony's* creation of a safe harbor against contributory infringement did not extinguish the law of inducement. This did not create a new basis of liability, since inducement has long been a separate legal basis for imposing secondary liability on manufacturers for their customers' infringement. Thus, *Grokster* is more about holding particular defendants liable for the behavior of actively encouraging their users' infringement than it is about the potential for secondary liability on the part of

technology businesses supplying products capable of non-infringing and infringing uses. Legitimate manufacturers and providers of technology products, even those widely used to infringe, probably have little to fear from *Grokster*.

NAVIGATING THE SAFE HARBOR

- SIMPLY DISTRIBUTING SOFTWARE THAT PEOPLE CAN USE TO ILLEGALLY SHARE COPYRIGHTED MUSIC OR MOVIES DOES NOT CREATE LIABILITY, BUT PROMOTING ILLICIT SHARING DOES.
- LEGITIMATE MANUFACTURERS AND PROVIDERS OF TECHNOLOGY PRODUCTS, EVEN THOSE WIDELY USED TO INFRINGE, PROBABLY HAVE LITTLE TO FEAR FROM *GROKSTER*.
- JUSTICE SANDRA DAY O'CONNOR'S RETIREMENT, HER UNKNOWN REPLACEMENT, THE DEATH OF CHIEF JUSTICE WILLIAM H. REHNQUIST AND THE NOMINATION OF JOHN ROBERTS TO FILL THE CHIEF'S SLOT DO NOT CHANGE THE BALANCE OF VIEWPOINTS OR THE SPLIT ON THE COURT.
- THE *SONY* SAFE HARBOR REMAINS SOUND AFTER *GROKSTER* BUT IT IS NOT A GET-OUT-OF-JAIL-FREE CARD.

TOO CLOSE

Although the *Grokster* court unanimously found inducement to infringe, two opposing concurrences, by three justices each, show the court remains divided on various issues concerning whether to apply *Sony's* safe harbor narrowly or broadly in cases where there isn't any evidence of intent to induce infringement.

Justice Ruth Bader Ginsburg would have constricted *Sony's* safe harbor to provide less protection to technology manufacturers. In a concurrence joined by then-Chief Justice William H. Rehnquist and Justice Anthony Kennedy, she indicated that she believed the evidence also was sufficient to hold *Grokster* liable for contributory infringement — a type of third-party infringement liability that does not require active inducement by the manufacturer — where a manufacturer knows its product is overwhelmingly used to infringe. In *Grokster*, the evidence Ginsburg, Rehnquist and Kennedy would have found sufficient was that about 90 percent of the files stored on the computers of those who used defendants' peer-to-peer network were copyrighted, the status of the remaining 10 percent being unclear.

On the other hand, Justice Stephen Breyer would have expanded *Sony's* safe harbor to provide more protection. Breyer, joined by Justices John Paul Stevens and Sandra Day O'Connor, would have found even the showing that 90 percent of the files were infringing was insufficient, as a matter of law, to support contributory infringement under *Sony*. These justices supported excluding liability unless "the product in question will be used almost exclusively to infringe copyrights," which these justices did not find in evidence of 90 percent infringement.

O'Connor's retirement and the recent death of Rehnquist do not change the balance of viewpoints or the split on the court, since each joined one of the opposing concurrences. O'Connor's successor is still unknown, as are the views on the subject of John Roberts, recently nominated to fill the chief's spot. Whether a future U.S. Supreme Court will impose liability in a case in which evidence shows that 90 percent of the uses are likely infringing, but that 10 percent may be

infringing or non-infringing, remains uncertain.

The *Sony* safe harbor remains sound after *Grokster*, but it is not a get-out-of-jail-free card. Courts will not turn a blind eye where manufacturers and distributors intentionally profit from infringement by purposefully inducing others to infringe. Executives of businesses whose products are capable of infringing as well as non-infringing uses — especially those widely used to infringe — should avoid making statements and taking actions that courts can view as coming too close to the wrong side of the inducement line. Lawyers representing copyright holders will look for such statements and actions.

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