# Law 101 – Implications of the Grokster Ruling

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The United States Supreme Court recently released its long-anticipated decision in the *MGM v Grokster* case debating the question of whether companies in the business of creating file-sharing software can be held liable for the infringing acts of their users. The Court, in a unanimous decision, held that they could, overturning the "no secondary liability" principle established in the well-known *Betamax* case.

In the *Betamax* case (*Sony Corp of America v Universal City Studios, Inc*, 464 US 417 (1984)), several Hollywood studios unsuccessfully made the argument that Sony should be held liable for copyright infringement resulting from the use of its new video recording technology. Relying on a theory found in patent law, the Supreme Court held that the manufacturer of equipment which had several legal uses, could not be held liable if consumers misused it for an infringing purpose.

In *Grokster*, MGM's main argument to distinguish the *Betamax* case was that no such parallel exists between video recording technology (which has several legal uses) and peer-to-peer file sharing software and devices (which have a primarily illegal purpose). MGM argued that the number of businesses that used such software for legal purposes paled in comparison to those using the software for illegal purposes.

It appears as if the Supreme Court, in not directly overturning *Betamax*, agreed with MGM's argument and concluded that by creating and operating the peer-to-peer file sharing software in the manner it did, Grokster was purposely promoting and enabling copyright infringement amongst its users. In short, that the illegal utility of the software greatly outweighed the legal utility of such programs.

Not only does the Supreme Court's ruling create a type of secondary manufacturer liability, but it will also change the legal climate of prosecution and infringement-combating action. Prior to the decision, US entertainment and media companies had to go after individual infringing users. Not only was this time consuming and expensive, but the entertainment companies didn't like being portrayed as a big corporation going after a teenager. Hollywood views the Court's ruling not only as a victory for copyright protection, but also as leveling the playing field, making corporations responsible to other corporations so to speak.

Justice Souter wrote, "We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by the clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringements by third parties." It is important to note Souter's use of the word "device" rather than of "software." This holding could be extended to apply to manufacturers of any type of device, including the iPod, TiVo, Google, etc, that consumers might use to facilitate their own copyright infringing activities.

More litigation is likely to arise to determine how a company's "intent" will be determined by the courts. When does a company intend for its product to be used for the purposes of copyright infringement, and what steps will a company need to take to defend it against such claims? Technology companies and their lawyers will likely employ a range of safeguard tactics in development and marketing, from simple disclaimers to more extreme measures like pledging to actively find and prosecute infringing consumers.

Moreover, will the Supreme Court's ruling result in a "chill" on creative expression and technological innovation? Because the Court does not actually define intent, but rather only comments that affirmative evidence of unlawful intent was present in the *Grokster* case, many questions remain. Will companies have to defend against claims of intent, affirmatively prove no intent, or even have to prove affirmative action against infringement as proof of a legal objective?

Another interesting legal issue that is likely to arise is what is "fair use" in light of the ruling and modern technology? Traditionally the fair use doctrine has allowed certain limited infringements to occur in the realm of fair comment and criticism, parody, news reporting, teaching, scholarship and research. Fair use is a grey area in copyright law and the decision may further blur the lines. Is a professor's "illegal downloading" of a song off of a file sharing service protected as a fair use if done in a classroom, but a student's similar actions in his dorm room actionable?

Some organizations, such as the Electronic Freedom Foundation (EFF), worry that the ruling will result in harm to American technology companies. American companies will have to spend increased money on safeguards and litigation and possibly hold back on technological innovation, while foreign competitors will not have to censor their developing technologies out of fear of liability. It remains to be seen if this is a real concern. In the short term, music and entertainment companies are celebrating the Court's decision as a victory and view the ruling as a step toward the needed increased protection of copyright and other intellectual property rights.

The ruling does not comment on the actual liability of Grokster, but rather remands the decision back to the lower court for determination. *Metro-Goldwyn-Mayer Studios, Inc v Grokster, Ltd*, South Connecticut, 2005 WL 1499402 US 2005. The full text of the opinion is available as a downloadable PDF from the Supreme Court Web site: http://www.supremecourtus.gov/opinions/04slipopinion.html.

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