

## GROKSTER ADOPTS PATENT LAW'S ACTIVE INDUCEMENT DOCTRINE FOR COPYRIGHT INFRINGEMENT

By TONI HARRIS

In June, 2005, the Supreme Court of the United States decided *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S Ct 2764 (2005), commonly referred to as the *Grokster* decision. In the *Grokster* decision, the Court determined under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.

Grokster distributes software products providing electronic file sharing capability via peer-to-peer networks rather than a central server system. Users of Grokster's software send file search requests directly to other Grokster users' computers from which the desired file may be downloaded. Grokster neither intercepts nor mediates the file requests, although it could conduct searches to learn what is available over the networks. Grokster admits that its users, many of whom are former Napster users actively sought by Grokster, predominantly download copyrighted material.

Grokster distributes the free software, actively promotes its ability to download copyrighted materials and encourages users to do so. Furthermore, unreleased Grokster advertising materials and business models reveal that Grokster intends that its customers use the software to download copyrighted material. In some instances, Grokster instructs users on how to play the downloaded copyrighted material. Moreover, Grokster derives its income from advertisers purchasing advertising space streamed to users while using the software, and demand for advertising space was directly

correlated to the users' access to free copyrighted material. There is no evidence that Grokster undertook any effort to block the sharing of copyrighted material, regardless of warnings by the copyright owners and offers of assistance with monitoring infringement.

The Court framed the issue in *Grokster* as a tension between the values of "supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement." The Court reaffirmed a previous holding

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*SPECIFICALLY, THE NEW COPYRIGHT INDUCEMENT RULE ANNOUNCED BY THE COURT STATES 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."*

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in which it adopted the copyright safe-harbor rule, which bars liability as a result of imputed intent to cause infringement solely on the basis of designing or distributing a product knowingly used to infringe but capable of substantial lawful use. In addition, the distinguishing facts in *Grokster* lead the Court to unanimously adopt the "active inducement"

rule from the patent law context, and apply it in the copyright context.

Specifically, the new copyright inducement rule announced by the Court states 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." In other words, "active inducement" requires "purposeful, culpable expression and conduct." The Court distinguished the facts alleged in *Grokster* from other situations by noting that a distributor cannot be

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liable for infringement by third parties where the distributor merely has knowledge that the product has potential or actual infringing uses or where the distributor merely performs typical acts associated with product distribution, including technical support and product updates. In addition, even where a distributor realizes increased commercial success as a result of increasing infringement or fails to affirmatively prevent infringement, these factors alone, without other evidence of intent, do not support a finding of intentional inducement. The distinguishing fact in finding liability is where a product capable of infringing use is distributed by a distributor who actively encourages and intends infringement by recipients of the product who then actually engage in infringing conduct.

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*BECAUSE OF THE COURT'S DECISION TO APPLY LEGAL RULES DEVELOPED IN THE PATENT LAW CONTEXT TO A COPYRIGHT CASE, IT IS LIKELY THAT IN THE FUTURE, THERE WILL BE MORE CROSS OVER BETWEEN COPYRIGHT AND PATENT INFRINGEMENT CASES."*

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In *Grokster*, the Court vacated the Ninth Circuit's summary judgment in favor of Grokster and remanded the case for reconsideration of MGM's summary judgment motion based on the "substantial evidence in MGM's favor on all elements of inducement", showing that Grokster's words and actions demonstrate its "patently illegal objective" of causing and profiting from the copyright infringement actions of third parties.

Because of the Court's decision to apply legal rules developed in the patent law context to a copyright case, it is likely that in the future, there will be more cross over between copyright and patent infringement cases. For example, in August, 2005, the Federal Circuit cited *Grokster* in a patent case involving active inducement and cited various patent infringement cases in support of its finding that relevant evidence of active inducement includes the purchase and use of the infringing product, the distributor's knowledge of the

patent at issue and infringing activities, and the distributor's intent to encourage the infringing activities. (*MEMC Electronic Materials, Inc. v Mitsubishi Materials Silicon Corp.*, 2005 US App, LEXIS 17956 (Fed Cir 2005).)

In summary, while mere knowledge of copyright or patent infringement, by itself, is insufficient to create liability, individuals and entities should take care to avoid statements and deeds that would be viewed as actively encouraging third parties to engage in infringing activities. If you are unsure whether a particular activity you want to engage in might be viewed as an active encouragement of an infringement of another's copyright or patent, you should seek legal advice.



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**NEW DISCLOSURE REQUIRED FOR  
WRITTEN TAX ADVICE**

BY EDWARD J. CASTELLANI

You may have noticed recently that certain written tax advice you received from your tax advisors contains a statement indicating that the advice cannot be relied upon to avoid tax penalties. The reason for this statement is that effective June 20, 2005, Treasury Department Rules, commonly referred to as "IRS Circular 230", require that certain written tax advice (including electronic communications) must comply with new Treasury Department standards. If the written communication does not comply with the Treasury Department standards, then the communication must contain a statement that the written communication cannot be relied upon to avoid penalties.

The standards that apply to opinions that may be relied upon to avoid tax penalties are long and complicated. Because of the complexity, we have instituted an opinion committee review process for this

type of opinion. Unfortunately, this will increase the cost of this type of opinion to our clients. We sincerely regret this increase in costs, but the matter is outside of our control due to the dictates of IRS Circular 230. We will generally start with tax advice that contains the disclaimer. Then, if you indicate your need to rely upon the advice to avoid tax penalties, we will undertake the more formal and expensive review process. We will rely upon you to communicate to us what your needs are.

Circular 230 was designed by the Internal Revenue Service to restore and maintain the public's confidence in individuals and firms providing tax advice. Recent scandals ranging from the KPMG Peat Marwick tax shelter scandal, to Enron and other recent accounting fraud cases, led the IRS to conclude that more rigorous standards are needed in the tax advice arena. The good news is that when you receive tax advice that meets the standards of IRS Circular 230 for opinions that may be relied upon to avoid tax penalties, you can be confident that the opinion has been thoroughly vetted and reviewed by our opinion committee.

Any questions on IRS Circular 230 and our new procedures for tax opinions can be addressed to Edward J. Castellani at 517-377-0845 and/or [ecastellani@fraserlawfirm.com](mailto:ecastellani@fraserlawfirm.com).

#### ATTORNEY ACTIVITIES OF NOTE

■ Ryan M. Wilson recently handled a contested hearing before Judge Skinner in Eaton County Probate Court. After three separate days of testimony Mr. Wilson prevailed and Fraser Law Firm's client (the mother) was appointed as the guardian for her developmentally disabled child. The father was seeking to be appointed the guardian.

■ In August, Ingham County Circuit Court Judge Beverly Nettles Nickerson ruled in favor of our client Russell Hinkle in a construction lien case tried by Mike Perry in March. In her opinion, the judge expressly found that Mr. Hinkle, the chief architect on the construction project pertaining to the planned (but incomplete) expansion of the Holiday Inn- South and the development of an adjacent office building and another hotel, had provided credible and informative testimony in regard to the nature of the project and the issues associated with it. Mr. Hinkle also personally owned 3 of the parcels which were part of a multiparcel

compilation of property that was to eventually be developed. The Court found that the contractor and the architectural firm's liens of approximately \$2,000,000 were subordinate to a mortgage lender's recorded mortgages on most of the parcels, and rejected the Plaintiff's claim that the liens should have related back to a point in time before the recording of the mortgages. During a pretrial conference shortly before the trial, the Plaintiffs, through their lawyer, had asserted that they would absolutely win the case and were not interested in discussing a settlement. Justice was done.

■ Attorney Jonathan Raven represented Big Ten Burrito, Inc. in the recent creation and launch of its new franchise system. The organization, whose original restaurant is in Ann Arbor, MI, has opened its first franchise location on Grand River in East Lansing, MI. Mr. Raven assisted with the business planning aspects of the franchise program; drafted required disclosure documents; negotiated agreements; and provided counsel on a variety of issues.

#### FORMER MICHIGAN PUBLIC SERVICE COMMISSIONER JOINS FRASER LAW FIRM

Robert B. Nelson will practice with the Fraser Trebilcock Davis & Dunlap, P.C.'s Utility Law Practice Group, where he will be joining a team of attorneys, including David E.S. Marvin, Thomas J. Waters and Michael S. Ashton, who assist business clients throughout Michigan in disputes with utilities, as well as a wide range of legal matters involving electric, gas and telecommunications law.

Prior to serving as Michigan Public Service Commissioner, Mr. Nelson was President of the Michigan Electric and Gas Association. His has also served as Chairman and Vice-Chairman of the Telecommunications Committee of the National Association of Regulatory Utility Commissioners and Chairman of the Administrative Law Section of the State Bar of Michigan. Mr. Nelson was a member of the North American Numbering Council, the Federal – State Universal Service Joint Board and the Advisory Council for the Center for Public Utilities at New Mexico State University.

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