BROMBERG ✭ SUNSTEIN LLP

the DISPATCH

A NEWSLETTER TO CLIENTS AND FRIENDS FALL 2005

Grokster and StreamCast — Copyright Trumps P2P Filesharing – For Now

The headlines read that an unanimous Supreme Court has ruled against Grokster and StreamCast in the ongoing dustup between music and video copyright holders and distributors of peer to peer ("P2P") filesharing software.

Grokster and StreamCast advertised and marketed their services as successors to the largely defunct Napster which was a direct source provider of P2P copyrighted music. Napster pioneered large scale, unauthorized filesharing of copyrighted music and became immensely popular among college and university students. Conceived by a Northeastern University student in Boston, Napster had a meteoric rise and fall, succumbing to bankruptcy after repeated copyright infringement challenges. In its wake, Grokster and StreamCast (using the trademark, MORPHEUS for its software) marketed alternative P2P software packages directly to Napster users and have been wildly or shockingly successful, depending on one's perspective on filesharing.

Grokster and StreamCast survived initial copyright infringement challenge in the Ninth Circuit, the same court that ruled against their predecessor in 2001. The circuit court drew a distinction between Napster's centrally supported filesharing service and the Defendants' software only services. *See A&M Records, Inc. v Napster, Inc.* 239 F.3d 1004 (9th Cir. 2001) and *Metro Goldwyn-Mayer Studios, Inc. et al v Grokster et al.*, 380 F.3d 1154 (2004). The circuit court absolved the Defendants because they simply supply software and do not participate directly in infringing filesharing by users. The court ignored claims of the Defendants' direct involvement in encouraging infringement.

Grokster and StreamCast did not fare as well before the Supreme Court which rejected the argument that the Defendants have no role in infringement. In his opinion for the Court, Justice Souter wrote that the Defendants facilitated wholesale infringement by distributing software designed in the first instance to download copyrighted material and by taking active steps to encourage infringement. Distribution of filesharing software with the clear intent to facilitate unauthorized copying and sharing of copyrighted songs and videos is an unlawful inducement of infringement. *Metro-Goldwyn-Mayer Studios, Inc. et al v Grokster et al.*, _ U.S._, 125 S. Ct. 2764 (June 27, 2005).

While the *Grokster* decision has been portrayed as the end, it is far from clear that the end is near. If the Defendants abandon direct support for infringement and guard against wholesale infringement by their users, one or both may survive. Indeed, StreamCast appears to have adopted this approach as its new business strategy.

The Supreme Court is unanimous about unlawful inducement but it is far from unanimous about striking a balance between lawful and unlawful use of new technology once inducement is removed. Justice Souter and Justice Ginsberg in her concurring opinion (joined by the Chief Justice and Justice Kennedy) suggest that the primacy of copyright must trump technology – even where direct inducement

In This Issue

The court is unanimous about unlawful inducement but far from unanimous about striking a balance between lawful and unlawful use once direct inducement is removed. . . . Justice Breyer has written a strong "concurring" opinion. . . urging safeguards against liability . . . [and] encouragement of technology development in dynamic balance with copyright protection.

has been removed. At the same time, Justice Breyer has written a strong "concurring" opinion, joined by Justice Stevens and Justice O'Connor, urging safeguards against open ended liability The Breyer opinion underscores encouragement of technology development in dynamic balance with copyright protection.

In his opinion for the Court in *Grokster*, Justice Souter notes with some alarm that more than 100 million copies of Grokster™ and StreamCast™ software have been downloaded, billions of files are shared monthly, and some 90% of the shared files are copyrighted. Grokster and StreamCast have conceded that most of this filesharing is infringing and that they have done nothing to discourage it. 125 S.Ct. at 2772. Nevertheless, they disclaimed liability, resting on the Court's 1984 decision in *Sony Corp. of America v Universal City Studios, Inc.,* 464 U.S. 417, 104 S.Ct. 774. In *Sony*, video tape recording machine ("VCR") technology was challenged for unlawful recording and sharing of movie video tapes. According to Grokster and StreamCast and the Ninth Circuit, *Sony* protects the Defendants because a distributor of a commercial product capable of substantial non infringing uses is not liable for infringement unless the distributor has actual knowledge of specific instances of infringement and fails to act.

The Supreme Court is uncomfortable with *Sony* because the record in that case clearly parallels *Grokster*. Sony was aware of the infringing potential of its VCR's and, in fact, encouraged questionable copying of copyrighted video materials. Yet, the *Sony* decision may be read as a complete shield against contributory and vicarious infringement for any technology which is "capable of commercially significant noninfringing uses". 464 U.S. at 442, 104 S.Ct. at 774. The *Grokster* Court let *Sony* stand even though there was pressure to reconsider the decision. In an obvious compromise among the Justices, the Supreme Court then ruled against Grokster and StreamCast on direct liability for unlawful inducement.

Justice Souter declared that the Defendants here are not absolved from liability because the evidence appears strong enough to prove that they actively induced infringement by pursuing an "unlawful objective" – the copying and distribution of overwhelmingly infringing files. 125 U.S. at 2781-2782.

In her concurring opinion, Justice Ginsburg urges the court on remand to consider liability both on the basis of inducement and on a more restrictive view of *Sony*, arguing that *Sony* does not bar contributory and vicarious liability. By contrast, Justice Breyer offers a spirited defense of the Ninth Circuit's interpretation of *Sony* and of the Supreme Court's original understanding of Sony's broad protection of new technology.

Justice Breyer would not absolve the Defendants from inducement liability but would absolve them from contributory and vicarious liability because their filesharing software has legitimate uses in the first instance. His objective is to maintain the balance first recognized in *Sony* which protects new technology from copyright liability where users may put new technology to an unlawful purpose. In Justice Breyer's view, the *Sony* rule must be preserved "to protect not the Groksters of the world … but the development of technology more generally". 125 S.Ct. at 2790. He recognizes that each advance in digital technology carries new opportunity for infringement, and a Supreme Court rule which fails to balance technology and copyright will stifle technology. In sum, shielding technology from contributory and vicarious liability is essential to strike a balance between intellectual property rights and encouragement of technology.

EdDailey–edailey@bromsun.com
Ed Dailey is a litigation partner