



## Grokster on Remand: The Implications to Peer-To-Peer Social Networks

Published November 2007



While most attorneys in the new media / IP practice are very familiar with the Supreme Court's ruling in Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913 (2005) 380 F.3d 1154 the recent lower court order for permanent injunction warrants some attention. Having written several articles related to the safe harbor rules of the Digital Millennium Copyright Act, the effect of the District Court's holding on User Generated Content social networking sites would appear extremely relevant for technology and IP practitioners.

In brief, a critical issue of contention between content owners and UGC websites has been around who bears the burden and cost of regulating and restricting infringement of copyrighted works. Over the past few years, content owner plaintiffs have filed claims on the basis of inducement, vicarious and contributory infringement. Defendants have been arguing that both the Digital Millennium Copyright Act of 1998 ("DMCA") and Sony Corporation of America v. Universal City Studios, Inc. (464 U.S. 417 (1984)) should warrant some protection of technology innovation. The media has covered the dispute closely with cases such as Viacom's infringement filing against YouTube and Google earlier this year and last year's commencement of litigation by Universal Music against Myspace and News Corp. These cases are a demonstrative footprint of the future of jurisprudence in the balancing between technology and content.

As always, each case rest on factual specifics, and thus introduction of

evidentiary support is instrumental to the success or failure of the litigants. Unfortunately for Streamcast, the damaging marketing and advertising initiatives related to the Morpheus software inevitably caused its demise with a finding of inducement to infringe on summary judgment back in 2003. For future litigants, it seems prudent that getting sufficient mitigating evidence on the record prior to a summary judgment motion may help avoid the difficult situation that Streamcast has faced.

While most of the opinion dealt with whether or not permanent injunction was proper, the most interesting issues in Justice Wilson's deliberation were (1) whether the plaintiff was required to cooperate with the defendant by providing sufficient information pertaining to content so that its filters may capture infringing content more effectively, and (2) whether or not a known inducer is required to filter uploads from infringing users.

With respect to the former, Wilson deliberated that the plaintiff was not affirmatively required to make it easy for the defendant to filter its content...thus rebuffing Streamcast's defense that the plaintiff should be required to supply hash values or artist title pairs to have such content filtered. Wilson determined that since the plaintiff won on summary judgment, the defendant has the burden of effectively stopping the infringement and the plaintiff is under no affirmative obligation to assist. Nonetheless, Wilson held that the plaintiffs were required to provide Streamcast with artist-title pairs before Streamcast's obligation would

be triggered for each copyrighted work.

The ruling on this issue is important for User Generated Content websites. While not directly addressing the DMCA, it invariably falls in alignment with the take down notices of the safe harbor defenses of Section 512 (a) of the DMCA. Yet, however, in a litigation situation, the UGC website will face significant challenges if it loses a summary judgment motion. Therefore, establishing sufficient dispute of fact and proper strategic planning in the operations of the business is essential to mitigate the risk of the negative consequences suffered by Streamcast.

As for the latter issue, Streamcast argued against the inclusion of such a requirement in the order, namely because they have ceased inducing and therefore the affirmative obligation of filtering was financially harmful to the continued operation of their business. Quoting the Supreme Court decision, "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps to foster infringement, is liable for the resulting acts of infringement by third parties." Grokster 545 US. At 936-37.

(CONTINUED ON REVERSE)

Thus, the question that ever UGC website wants to know is whether or not they have a duty to actively filter, or merely respond to take down notices under the DMCA. In this case, one can imply that certain factors must be in place before a permanent injunction will issue to require affirmative filtering. Wilson took a critical position by claiming that while although Streamcast invariably stopped inducing infringement after the 2003 Summary Judgment, the fact that Streamcast intended to continue

distributing the Morpheous Software without the affirmative obligation to filter was problematic. More specifically, the Court relied on A&M Records, Inc. v. Napster, Inc. 239 F.3d 1004 (9<sup>th</sup> Cir. 2001) to reject the “capable of substantial non-infringing use” argument in the *Sony* case. On remand in *Napster*, the district court held that the defendant was required to use audio fingerprinting technology (e.g. services offered for acoustical fingerprinting such as licensed by Audible Magic). Relying on this reasoning, Justice Wilson held that products capable of substantial non-infringing use should be filtered if the failure to do so would constitute either continued contributory or vicarious infringement.

Citing Perfect 10 v. Amazon, Inc. 487 F. 3d. 701 (9<sup>th</sup> Cir. 2007) the culpable act of promoting infringement coupled with distribution of technology capable of inducement are the crux of the Court’s analysis. Taking the position that since the Supreme Court’s opinion was silent regarding the timing relationship between specific acts promoting infringement and the timing of the actual infringement for finding inducement, distribution following past promotion can implicate inducement by default. Wilson’s reasoning was based upon the fact that since Streamcast was a successful inducer in the past, the reputation of its Morpheous software as a technology capable of infringement is well-known among its user base. Therefore, even without continued inducement, the market identity of the

software will likely lead to users infringing because users have already “internalized” the message of inducement. In essence, Streamcast falls victim to the effectiveness of its own marketing efforts.

Consequently, the Court ordered relief of a permanent injunction requiring Streamcast to: (a) filter infringing uploads, and (b) implement steps to encourage legacy Morpheous software users to upgrade to the filtered version of the software. The type of filtering and degree is still not decided, but the premise of imposing an affirmative obligation to the peer-to-peer technology enabler is significant. While the order is likely to be appealed, it sheds some light on how the federal courts are.

So what does this part of the court’s decision mean in a practical sense to UGC websites? First, one must avoid a finding of inducement by ensuring that marketing efforts are not designed to attract or encourage infringement. Second, the UGC website should have prominent policies regarding the posting of infringing content. The first part of Wilson’s argument relates mostly to whether or not the defendant is a willful inducer. In the case of Streamcast who marketed their software to former Napster users, even had marketing copy that indicated Morpheous users could copy their music, the defenses of the *Sony* case where invariably lost. Had Streamcast reviewed their marketing materials with Advertising counsel, the outcome may have been vastly different.

Further, while the *Grokster* case does not directly mention the DMCA nor its safe harbor defenses, the implications of imposing affirmative obligations to filter user generated content as they are uploaded into a network is extremely relevant to User Generated Content websites.

This case demonstrates a conservative skew in the judiciary, which tips the scale in favor of protecting the IP rights of the content owners relative to the rapid innovation of

technological advances. Such thinking is a sign of our times, which can either serve as a beacon for investment into content production, or drastically undermine competitive advantage for technology innovation relative to the Global marketplace. Overall, *Grokster* is one of the earliest in a series of cases that has resulted in the reshaping of intellectual property law as it relates to the new distribution channel of the Internet.

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