

Grokster: The Line In The Sand On File-Swapping

The fair use provisions of the Copyright Act, which seek to balance the rights of copyright owners and those of copyright users, are remarkably fertile ground for litigation. Particularly contentious questions have involved technologies that reproduce and transmit information, including copyrighted content. The Supreme Court weighed in on this debate in its seminal decision in *Sony Corp. of America v. Universal City Studios, Inc.*, the so-called “Betamax” case.¹ The Betamax Court held that use of VCRs to “time-shift,” i.e. to record programs for viewing at a more convenient time, was a fair, legitimate non-infringing use, and that sale of VCRs therefore did not constitute contributory copyright infringement.

At its core, the Betamax decision concerned consumer access to new technologies that can be used to infringe copyright. While a generation raised in a world where VCRs are commonplace may regard the debate over VCRs as purely academic, the deeper questions are being debated anew in the context of Internet peer-to-peer (P2P) file-sharing networks. P2P networks provide software that allows users to: a) make selected content on their computer (e.g., MP3 music files) available to others via the Internet; b) search the contents of other users’ computer files to find content of interest; and c) download available files.² Unlike the traditional client-server model of computer networking, each computer on a P2P network is capable of being both a client (receiving content) and a server (distributing content). To their advocates, P2P networks are a potentially vibrant medium for exchanging information. To their opponents, chiefly the owners of valuable copyrighted works, P2P networks enable rampant copyright infringement, such as downloading illegal copies of music files.

Litigation shut down Napster, a P2P network whose name had become synonymous with music piracy.³ Content owners also shut down Aimster, a Napster-like network that operated over instant messaging networks.⁴ Even as those cases were being decided, however, the technology of file sharing was changing. In *MGM Studios, Inc. v. Grokster Ltd.*, the Ninth Circuit affirmed a lower court ruling dismissing contributory and vicarious copyright infringement claims against Grokster and StreamCast, companies that distributed software for establishing P2P networks. The *Grokster* decision is a significant development, not only because it limits the ability of content owners to enforce rights, but also because the *Grokster* court reached its conclusion in a manner that may encourage the Supreme Court to review the decision. That review could resolve the entire question of the legal status of P2P networks and the continued viability of the Betamax standard in light of new technologies.

The different results in *Grokster*, *Napster* and *Aimster* turned on differences between the searching technology used in each network. Because content on a P2P network is not centralized, there must be a method for allowing users to conduct searches of files available for downloading for the network to be useful. The systems at issue in *Napster* and *Aimster* provided central servers on which users ran their searches.⁵ Ultimately, this central server system led to the end of these networks. By directly providing a facility necessary to make their networks operate, the Napster and Aimster defendants could be legitimately held accountable for the use of that facility to commit copyright infringement.⁶

The *Grokster* case examined two P2P networks that relied on more complex technology. Grokster’s technology, developed by KaZaa B.V., used a system of “supernodes” to provide search and indexing functions.⁷ Instead of having all users connect to Grokster’s servers, Grokster users connect to the most accessible supernode. Thus, instead of all users accessing a centralized cluster of servers like Napster, the Grokster network consists of smaller clusters of users centered around each supernode. Grokster’s software activates computers connected to the network as supernodes if required by the overall network traffic, without Grokster’s direct involvement. Defendant StreamCast initially used the same technology, but eventually created its own software based on Gnutella, an open source program. StreamCast’s network, known as Morpheus, dispenses with centralization entirely, and simply passes search requests among the computers connected to the network until a match is found.

There has never been any serious dispute that those who upload and download copyrighted content through P2P networks are guilty of copyright infringement.⁸ The issue in *Grokster*, as in the other file-sharing cases, was whether the defendants were liable as contributory infringers or vicarious infringers. Contributory copyright infringement is analogous to liability for “aiding and abetting,” and requires that the defendant know, or have reason to know, of the copyright infringement, and materially contribute, encourage, or assist that infringement.⁹ Vicarious infringement is analogous to *respondent superior*, the doctrine that holds employers liable for actions their employees perform in the scope of their employment, and requires that the defendant benefit financially from the infringement and have the right and ability to supervise the infringement. Just as an employer does not have to know about its employees’ torts to be held liable under *respondent superior*, knowledge of infringement is not required for vicarious infringement.

The *Grokster* court quickly disposed of the vicarious infringement claim, finding that neither Grokster nor StreamCast had the right or ability to control or monitor the individual users. The *Grokster* court then focused its analysis on contributory infringement, especially whether the *Grokster* and Morpheus systems were capable of substantial or commercially significant noninfringing uses. If there were no such uses, Grokster and StreamCast’s general awareness that their software was used to infringe copyrighted works would be enough to impose liability. However, if such noninfringing uses existed, Grokster and StreamCast could only be held liable if they reasonably knew of specific infringing content (e.g. specific infringing files) and failed to act on that knowledge.

The *Grokster* court found that the Grokster and Morpheus networks were used to distribute a variety of non-infringing content, such as public domain literary works and musical recordings that the artist has authorized for free distribution. These non-infringing distributions were never found to be anything other than a minority use - neither the defendant nor the court seriously questioned the *Grokster* plaintiffs’ claim that the overwhelming majority of files downloaded through the Grokster and Morpheus networks were infringing. Nonetheless, the *Grokster* court held that it was enough that the Grokster and Morpheus networks were capable of substantial non-infringing uses. The *Grokster* court explicitly rejected the Seventh Circuit’s analysis in *Aimster*, which held that the noninfringing uses must be *probable*, not just *possible*, and that “some estimate of the respective magnitudes” of infringing versus non-infringing uses was needed in order to properly frame the contributory infringement inquiry.¹⁰

Next, the *Grokster* court questioned whether Grokster or StreamCast had actual knowledge of specific infringing activity and took no action to prevent the infringement. The court held that the decentralized nature of the Grokster and Morpheus networks meant that the defendants would not be able to act to prevent infringing activity. As the lower court observed: “if either Defendant closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.”¹¹ The *Grokster* court therefore found no basis for holding Grokster and StreamCast liable as contributory infringers.

In the long term, the *Grokster* decision may accelerate the movement within the entertainment industry to find non-litigation solutions to the problem of copyright infringement through P2P file-sharing, such as technological solutions to prevent file-sharing or development of a business model that exploits it. In the short term, the entertainment industry will almost certainly ask the U.S. Supreme Court to review the *Grokster* decision. If review were granted, the Supreme Court would probably be forced to confront fundamental questions concerning the treatment of new technologies that reproduce and distribute information. Should they be given the benefit of the doubt if theoretically capable of non-infringing use, as suggested by the *Grokster* court? Or should those who provide these technologies be required to demonstrate probable and quantitatively significant non-infringing uses to avoid liability, as the *Aimster* court seems to hold? If the Supreme Court answers these questions, its decision may be as significant as the Betamax case was twenty years ago.

— Sanjiv Sarwate

1. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

2. *MGM Studios, Inc. v. Grokster Ltd.*, ___ F.3d ___, 2004 U.S. App. LEXIS 17471 at *6 (9th Cir. Aug. 19, 2004).

3. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

4. *In Re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003).

5. *Aimster*, 334 F.3d at 646-47; *Napster*, 239 F.3d at 1011-12.

6. *Aimster*, 334 F.3d at 651-52, 654-55; *Napster*, 239 F.3d at 1022.

7. *Grokster* at **9-10.

8. *Id.* at *11; *Aimster*, 334 F.3d at 645; *Napster*, 239 F.3d at 1013.

9. *Grokster* at *11.

10. *Aimster*, 334 F.3d at 649.

11. *Grokster* at **19-20.

Firm Update/Announcements

New Associates

Annie L. Albertson ... has joined the firm as an associate in the Chicago office. **Annie** is a graduate of Northwestern University School of Law, JD '03; she will continue her practice in trademark and copyright litigation and prosecution.

Kristen S. Knecht ... has joined the firm as an associate. **Kristen** is a graduate of the University of Michigan Law School, JD '04.

Teresa D. Tambolas ... has joined the firm as an associate. **Teresa** is a graduate of the DePaul University College of Law, JD '99; she will continue her practice in foreign and domestic trademark prosecution and litigation.

Presentations

David C. Hilliard ... spoke to the Directors of IPSA International in May on IP Investigations in Litigation and will speak at the Chicago Bar Association on October 19, 2004, on his and **Brett A. August's** successful mediation of the Terra Museum case.

Mark V. B. Partridge ... spoke on Cybersquatting and the ICANN UDRP at an IPLAC seminar on "Untangling the Web - Trademark and Domain Name Issues," at DePaul Law School, Chicago, Illinois, on September 21, 2004. **Mark** also spoke this past June on book publishing contracts at the writers conference "Of Dark and Stormy Nights" sponsored by the Midwest Chapter of Mystery Writers of America.

Robert W. Sacoff ... spoke at the 39th AIPPI World Congress in Geneva, Switzerland, on June 21st, on "Practical Consequences of Case Law Granting Protection as Registered Trademarks of Descriptive Marks and Determination of Their Scope of Protection."

Bob also presented a paper at the 30th Annual Intellectual Property Summer Institute of the State Bar of Michigan on July 24th on Mackinac Island, Michigan, on "Madrid, and Other Harmonies and Discords in International Trademark Law." Finally, **Bob** was a speaker at the All Ohio Annual Institute on Intellectual Property in Cleveland and Cincinnati on September 9th and 10th, on "U.S. Trademark Clearance In View Of The Madrid Protocol." Copies of his presentations are available upon request.

Sanjiv Sarwate ... will moderate and participate in an ABA Teleconference on October 21, 2004 on "Recent Developments in Copyright Law: *MGM v. Grokster* and the future of Internet file-sharing." This is part of a series of teleconferences on intellectual property law coordinated by **Jonathan S. Jennings** for the ABA's I.P. Section.

Publications

The 5th Edition of *Trademarks and Unfair Competition* by **Beverly W. Pattishall**, **David C. Hilliard** and **Joseph N. Welch II** is now used in over 30 law schools across the United States. Their esteemed *Trademarks and Unfair Competition Deskbook* was again cited and quoted by the Federal Courts in *Bumble Bee Seafoods v. UFS Industries* (S.D.N.Y.) in July.

LexisNexis Publishing has published an eighty-six page analysis of current developments in trademark and unfair competition law by **David C. Hilliard** and **Joseph N. Welch II**. The work supplements the 5th edition of **Pattishall, Hilliard and Welch** on *Trademark and Unfair Competition Law*, and can be accessed at www.lexisnexis.com/lawschool/study/texts/#trademarks.

Uli Widmaier's article, "Use, Liability, and The Structure of Trademark Law," will be published in Volume 33 No. 2 of the *Hofstra Law Review* (Winter 2005).

Publications (cont.)

Mark V. B. Partridge's article "Personal Names, Politics and Cybersquatting," was selected for publication by *CircleID*, an Internet site providing content and information for the Internet infrastructure community. The article can be accessed at www.circleid.com. Also, **Mark's** article "Proceed with Caution: The Hidden Hazards in Standard Book Contracts," has been accepted for publication and will be published in the November issue of *ByLine Magazine*.

Appointments

Brett A. August ... was elected Secretary of the Executive Committee of Yale Law School.

Mark V. B. Partridge ... has been elected to be a member of the Fellows of the American Intellectual Property Law Association. The qualifications for election include "outstanding service to the association, prominence within the intellectual property profession, learned contributions to the profession through teaching and writing, and observance of the highest standards of ethical conduct." No more than one percent of the active members of the Association may hold the designation. **Robert M. Newbury** is also a member of the Fellows.

Robert W. Sacoff ... has been nominated to become President of AIPPI United States, the U.S. Group of the Association Internationale pour la Propriete Intellectuelle, for a two-year term. The election will be held on October 13, 2004. He also is now serving as Immediate Past Chair of the ABA Section of Intellectual Property Law.

Teaching

Brett A. August and **Bradley L. Cohn** ... have returned this Fall to DePaul University College of Law as Adjunct Professors teaching their advanced seminar on Legal Writing.

Chad J. Doellinger, **David Hilliard**, and **Uli Widmaier** ... will again co-teach two seminars, entitled "Advanced Trademark Law" in January 2005, and "Intellectual Property Law And the Regulation Of Information" in Spring 2005 at the University of Chicago Law School. Also, **Uli** was appointed to teach a new class there entitled "The First Amendment and the Media," which will focus on the courts' free speech jurisprudence in the context of press, television, and the Internet. It will be held for the first time in the Spring 2005 Quarter.

Jonathan S. Jennings ... is now teaching a course on Right of Publicity law as an Adjunct Professor at The John Marshall Law School that he originally created and taught last year.

Sanjiv Sarwate has joined **Mark V. B. Partridge** this Fall in teaching Trademark Law in the LLM program at The John Marshall Law School.

Angela K. Steele has joined **David C. Hilliard**, **Joseph N. Welch II** and **Danielle B. Lemack** this Fall in teaching the Trademarks and Unfair Competition course that is taught annually at Northwestern University School of Law.

Noteworthy

In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, No. 01-1357, the Federal Circuit agreed with the American Bar Association's *amicus curiae* position that no adverse inference of willful infringement should be drawn from a defendant's assertion of attorney-client or work product privilege. **Joseph N. Welch II** co-authored the ABA's *amicus* brief in that case and was assisted by **Phillip Barendolts**.