

GREAT GROKSTER! NIFTY NON-NAPSTER NETWORKS NOT NIXED

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In an important decision issued in late April 2003, a federal district court judge in Los Angeles upheld the legality of two file-swapping services, Grokster and StreamCast Networks, in a lawsuit brought against them by the record industry and major movie studios. *MGM Studios Grokster, Ltd.*, 259 F.Supp 2d 1029 (C.D. Cal. 2003).

The court's ruling is in stark contrast to the February 2001 decision of the U.S. Court of Appeals for the Ninth Circuit which effectively shut down the Napster file-sharing website by holding that it was had committed contributory infringement in operating a somewhat similar, but materially different, network. For a discussion of that case, *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) see my article, "Ninth Nixes Napster's Nifty Network."

In this case, U.S. District Judge Stephen Wilson ruled that the record companies and movie studios could not hold the two file-swapping services liable for copyright infringements that occurred using their software. In his opinion, the judge relied in part on the U.S. Supreme Court's landmark 1984 Sony Betamax decision, *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417 (1984), when he said that "Grokster and StreamCast are not significantly different from companies that sell home video recorders or copy machines, both of which can be and are used to infringe copyrights." In the Betamax case, the Supreme Court ruled that manufacturers of video cassette recorders were not liable for their customers taping of television programs, citing the copyright "fair use" doctrine, Section 107 of the Copyright Act, 17 U.S.C. §107.

The Defendants here, Grokster and StreamCast Networks, along with another company, Kazaa, distributed software that enabled users to exchange digital media such as music and videos by means of a peer-to-peer transfer network. The software could be downloaded free of charge, and since all three systems initially were powered by the same FastTrack networking technology, users of these software platforms essentially were connected to the same peer-to-peer network and were able to exchange files seamlessly. (Kazaa did not defend the case and a default was entered against it, leaving Grokster and StreamCast as the defendants).

StreamCast later stopped using the FastTrack technology and switched to an "open" (i.e. not proprietary) Gnutella technology, distributing its own software, called Morpheus instead of a version of the FastTrack software. Grokster, however, continued to distribute a version of the FastTrack software.

In their suit, the Plaintiffs contended that the Defendants were liable for both contributory and vicarious infringement of their copyrighted works. According to the Napster decision, in order to find a defendant either contributorily or vicariously liable for copyright infringement, the defendant's end-users must themselves be engaged in direct copyright infringement. The judge found that, as in Napster, many of the users of the Defendants' software used it to download copyrighted media files, including those owned by the Plaintiffs, and thereby infringed the Plaintiffs' exclusive rights of reproduction and distribution granted by the Copyright Act, 17 U.S.C. §106.

As to the issue of contributory infringement, the judge referred to the Sony Betamax case, and pointed out that the Supreme Court had not found the VCR manufacturers liable for contributory infringement because the VCRs were not only capable of infringing uses but also "substantial noninfringing uses," i.e. users could legitimately use the devices to record non-copyrighted material or simply to "time-shift" a program by recording it at one time, viewing it later, and then erasing it. Similarly, there was evidence here that there were substantial noninfringing uses for the Defendants' software, such as distributing movie trailers, free songs or other non-copyrighted works, using the software in countries where it is legal, or sharing public domains works like Shakespeare's plays. Other permissible uses include searching and copying public domain materials, government documents, and media content for which distribution is authorized or to which the owners do not object to its distribution.

According to the judge, the Defendants were not significantly different from companies that sell home video recorders or copy machines, both of which can be and are used to infringe copyrights. "While the Defendants, like Sony or Xerox, may know that their products will be used illegally by some (or even many) users, and may provide support services and refinements that indirectly support such use, liability for contributory infringement does not lie 'merely because peer-to-peer file-sharing technology may be used to infringe plaintiffs' copyrights.' . . . Absent evidence of active and substantial contribution to the infringement itself, Defendants cannot be liable."

The court then considered whether the Defendants were liable for vicarious infringement, in which liability for copyright infringement may be extended to cases in which a defendant has a right and ability to supervise the infringing activity and also has a direct financial interest in such activities. According to the judge, citing Napster, there are two elements required for vicarious infringement: (1) financial benefit, and (2) the defendant's right and ability to supervise the infringing conduct. As opposed to contributory infringement, one can be liable for vicarious infringement without knowledge of the infringement

In Napster, the court found that Napster had the right and ability to supervise its users' conduct, including the central indices of files being shared and exchanged. Napster users were required to register with Napster, and access to the file-sharing system depended upon a user's valid registration. As a result, Napster possessed, and frequently exercised, the power to terminate access for users who violated company policies or applicable law.

Here, however, the technology used by Grokster and StreamCast did not give them the ability to supervise or control the file-sharing networks, or to restrict access to them, and thus they could not police what was being traded as Napster could. The judge identified a critical distinction between Napster's system and the software distributed by Defendants. The infringement in Napster took place across an "integrated service" designed and operated by Napster, in which Napster possessed the ability to monitor and control its network, and routinely exercised its ability to exclude particular users from it.

By contrast, the Defendants provided software that communicated across networks that were entirely outside their control. In the case of Grokster, the network was the propriety FastTrack network, which was clearly not controlled by Grokster. In the case of StreamCast, the network was Gnutella, the open-source nature of which apparently placed it outside the control of any single entity.

Since there was no evidence before the Court indicating that the Defendants had the ability to supervise and control the infringing conduct, all of which occurred after the product had passed to end-users, the Defendants could not be held liable for vicarious infringement, or for contributory infringement, and the judge thus granted summary judgment in their favor.

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