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Going Straight: Whether P2P Technology can be legitimized in the wake of the *Grokster* decision?

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INTRODUCTION

Peer-to-peer ("P2P") technology distributors, particularly Grokster and Streamcast Networks, will not miss the year 2005. In June of that year, the United States Supreme Court handed down one of the most anticipated copyright cases in recent memory.[2] In *MGM Studios Inc. v. Grokster*, the Court held that a distributor of software may be liable for acts of infringement by third parties who use the software if that distributor has taken "affirmative steps to foster infringement" regardless of the device's lawful uses, a test now known as "active inducement."[3]

Grokster and Streamcast Networks are two P2P companies whose software was used by individuals to distribute copyrighted works.[4] The Court found that the defendants could be liable for inducing copyright infringement.[5] After the decision, the only content found on Grokster's website contained a couple of paragraphs, one of which read, "[t]here are legal services for downloading music and movies. This service is not

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[1] J.D., Syracuse University College of Law, expected in 2007.

[2] David Post, *The Impact of 'Grokster,'* 27 NAT'L L.J. 48 (Aug. 3, 2005).

[3] MGM Studios Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2780 (2005).

[4] *Id*. at 2770-71.

[5] *Id*. at 2782.

one of them."[6] The decision not only made a statement to Grokster, but also to all P2P companies who actively induce infringement.

But what is the big fuss about P2P and why are the music and motion picture industries so concerned? P2P technology allows users to communicate and transfer files directly to each other, rather than through a central server.[7] In 2004, P2P communication represented 60% of all internet traffic.[8] The Recording Industry of America ("RIAA"), a trade group that represents the U.S. recording industry, contends that much of this traffic is used to transfer copyrighted music illegally, and has brought numerous lawsuits against individuals and P2P technology distributors across the country.[9] The Court in *Grokster* cited MGM's research which indicated that 90% of the files available on Grokster were copyrighted works.[10]

Since the *Grokster* decision, the RIAA has begun to target P2P distributors who actively encourage copyright infringement using their software.[11] Some of these targets

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[6] Grokster Homepage, http://www.grokster.com (last visited Oct. 18, 2006).

> As of Aug. 15, 2006, Grokster's website read, "The United States Supreme Court unanimously confirmed that using this service to trade copyrighted material is illegal. Copying copyrighted motion picture and music files using unauthorized peer-to-peer services is illegal and is prosecuted by copyright owners. There are legal services for downloading music and movies. This service is not one of them. YOUR IP ADDRESS IS _____ AND HAS BEEN LOGGED. Don't think you can't get caught. You are not anonymous."

[7] Skype P2P Telephony Explained – For Geeks Only, *at* http://www.skype.com/products/explained.html (last visited Oct. 18, 2006).

[8] Drew Wilson, *CacheLogic Study – P2P is Changing*, *at* http://www.slyck.com/news.php?story=914 (last visited Mar. 24, 2006).

[9] *See* Press Release, Recording Indus. Assn. of Am., RIAA Brings New Round Of Lawsuits Against 751 Online Music Thieves (Dec. 15, 2005) (on file with author).

[10] *MGM Studios, Inc.,* 125 S. Ct. at 2772, 2778 ("By comparison, evidence introduced by the plaintiffs in *A & M Records, Inc. v. Napster, Inc.* . . . showed that 87% of files available on the Napster filesharing network were copyrighted" (citation omitted)).

[11] Joseph Menn, *File-Sharing Services May Reform Themselves*, L.A. TIMES, Sept. 20, 2005, at C1.

include companies such as BitTorrent, Direct Connect, BearShare, LimeWire, WinMX, Warez, and eDonkey.[12]

While *Grokster* answered many questions, it also left a few questions open.[13] How will a company know when they are actively encouraging copyright infringement?[14] What steps can a company take to prevent them from becoming another Grokster?[15] David Post raises other questions, such as what if a company has no actual knowledge of specific infringements and does not "actively encourage or induces their users to infringe…The opinion for the unanimous court is silent on the question; there's no need, it says, to resolve this question now" because of all the evidence of Grokster's active inducement.[16]

The issue presented here is whether popular P2P companies, in particular BitTorrent, will be held liable under *Grokster*'s active inducement test. Under this test, the Supreme Court would probably not hold the creator of BitTorrent technology liable. Instead, the Court would probably hold liable the Torrent search engines or index sites that facilitate the distribution of copyrighted works. In order to fully analyze this liability and discuss what steps a company may take to avoid this liability, an overview of the decisions prior to Grokster, the Grokster decision, and its aftermath will provide helpful background to make a prediction.

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[12] Menn, *supra* note 11.

[13] *See* Post, *supra* note 2.

[14] *See* Webcast Interview with Matthew Neco, General Counsel, Streamcast, Inc., and Donald Verrilli, Partner, Jenner and Block (Oct. 5, 2005), *available at* http://phx.corporate-ir.net/phoenix.zhtml?p=irol-eventDetails&c=129735&eventID=1121951.

[15] *Id*.

[16] Post, *supra* note 2.

PRE-*GROKSTER* DECISIONS

Grokster's defense against liability revolved around the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc*.[17] In *Sony*, copyright holders of television programs sued defendants who manufactured and sold home video recorders, claiming defendants were contributorily liable for its purchaser's copyright infringement.[18] "The VCR, for the first time, enabled television viewers to record, easily and conveniently and for relatively low cost, television broadcasts right off the air and to play them back at a later time."[19] The Motion Picture Association of America (MPAA) objected to the use of the VCR on the grounds that it affected the economic well-being of copyright holders. Jack Valenti, President of MPAA, created the analogy that the VCR "is to the American film producer and the American public as the Boston strangler is to the woman home alone."[20]

Defendants and the district court argued that the technology was merely time shifting, and that not many copyright holders would object to its use.[21] "Sony was no more liable for the wrongdoing of Betamax purchasers than would the seller of a

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[17] Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984).

[18] *Id*. at 420.

[19] David G. Post, Annemarie Bridy, and Timothy Sandefur, "*Nice Questions" Unanswered: Grokster, Sony's Staple Article of Commerce Doctrine, and the Deferred Verdict on Internet File Sharing* 2-3*, available at* http://www.temple.edu/lawschool/dpost/GroksterArticle.pdf (last visited Jan. 20, 2006).

[20] *Id.* at n.3, *citing* Home Recording of Copyrighted Work: Hearings on H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5488, and H.R. 5705 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary, 97th Cong., 2d Sess., Serial No. 97, Part I, 4-8 (1982) (statement of Jack Valenti), *available at* http://cryptome.org/hrcw-hear.htm (last visited July 18, 2005).

[21] *Sony*, 464 U.S. at 423-424.

typewriter or a printing press be liable for the infringing conduct of *its* customers."[22] The Supreme Court agreed and added that because the sale of copying equipment does not constitute contributory infringement if the product is "capable of substantial noninfringing uses," the defendants were not liable.[23] Under this "staple article of commerce doctrine," the Court held that courts "must strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the right of others freely to engage in substantially unrelated areas of commerce."[24] The Court reasoned that because *some* copyright holders would approve of the time-shifting for private home use, VCR technology "should not be stifled simply because the equipment is used by some individuals to make unauthorized reproductions…."[25]

The *Sony* Court, however, did not define "substantial noninfringing uses."[26] In 2001, however, the Ninth Circuit gave us some guidance in *A&M Records, Inc. v. Napster, Inc*.[27] In that case, plaintiff copyright holders sued Napster, Inc. ("Napster"), a company which "facilitates the transmission of MP3 files between and among its users," alleging they were contributorily liable for their users copyright infringement.[28] In asserting a fair use defense, Napster contended that (1) the users downloaded the

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[22] Post, *supra* note 19.

[23] *Sony*, 464 U.S at 456.

[24] *Id*. at 442.

[25] *Id*. at 446.

[26] *Sony*, 464 U.S. 417 *passim*.

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

[28] *A&M Records*, 239 F.3d at 1011.

copyrighted files to "'sample' the music in order to decide whether to purchase the recording," (2) the downloads merely space-shifted music that the user already owned, and (3) many artists permitted the reproduction.[29] Napster also asserted they were protected by *Sony* because of their software's substantial non-infringing uses.[30] The Court held that although their software was capable of substantial noninfringing uses, Napster was contributorily liable because they had actual knowledge of specific acts of infringement.[31] The Court also noted that Napster was vicariously liable because of the financial benefit they derived from enticing users to download from their software and its "ability to supervise its users' conduct."[32]

THE *GROKSTER* DECISION

In 2003, MGM Studios sued Grokster, Ltd. and Streamcast Networks, two P2P software distributors.[33] Grokster employs FastTrack technology, while Streamcast Networks employs Gnutella technology.[34] FastTrack technology works like this:

> [t]he user's request goes to a computer given an indexing capacity by the software and designated a supernode… The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the computer requesting it, and the requesting user can download the file directly from the computer located. The copied file is placed in a designated sharing folder on the requesting user's computer,

[29] *A&M Records*, 239 F.3d at 1018-19.

[30] *Id*. at 1020.

[31] *Id*. at 1022.

[32] *Id*. at 1023.

[33] *MGM Studios, Inc.,* 125 S. Ct. at 2771.

[34] *Id*.

> where it is available for other users to download in turn, along with any other file in that folder.[35]

The Gnutella network has a similar configuration, but some versions of Gnutella allow peer computers to communicate directly with one another instead of using supernodes.[36] Neither Grokster nor StreamCast use "servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software."[37]

MGM alleged that almost 90% of the files available on these networks were protected by copyright.[38] Defendants argue, as Napster did, that "free copying even of copyrighted works may be authorized by the rightholders" in that many musicians allow file sharing because it allows them to reach new audiences.[39] In addition, defendants asserted that, consistent with *Sony*, the "potential noninfringing uses of their software are significant in kind, even if infrequent in practice."[40]

In granting summary judgment to the defendants, the district court and the Ninth Circuit relied heavily on the *Sony* decision.[41] The district court held that because defendants did not have actual knowledge of specific acts of infringement, they could not be held liable in the distribution of the software.[42] The Ninth Circuit agreed with the

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[35] *MGM Studios, Inc.*, 125 S. Ct. at 2771.

[36] *Id*.

[37] *Id*.

[38] *Id*. at 2772.

[39] *Id*.

[40] *Id*.

[41] *Id*. at 2774 (citing MGM Studios, Inc. v. Grokster, Ltd.,, 259 F. Supp. 2d 1029, 1033 (C.D. Cal. 2003) and MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004)).

[42] *MGM Studios Inc.*, 125 S. Ct. at 2774.

district court and further found that, according to *Sony*, because the software was "capable of substantial noninfringing uses" defendants were not liable.[43] The Ninth Circuit also considered whether defendants were vicariously liable.[44] "The court held against liability because the defendants did not monitor or control the use of the software, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement."[45]

However, on June 27, 2005 the Supreme Court reversed the lower courts decisions holding that a distributor of software may be liable for acts of infringement by third parties who use the software if that distributor has taken "affirmative steps taken to foster infringement…regardless of the device's lawful uses."[46] The Court reasoned that because the *Sony* decision did not preclude courts to ignore evidence of intent to promote infringement if such evidence exists and because such evidence was clearly shown here, defendants could be liable. [47]

The Court found that defendants demonstrated their intent to promote infringement by aiming its marketing efforts towards former users of Napster.[48] "Internal

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[43] *MGM Studios Inc.*, 125 S. Ct. at 2774-2775.

[44] *Id*. at 2775.

[45] *Id*.

[46] *Id*. at 2767; On remand, the district court, applying the Supreme Court's active inducement test, reversed its prior decision. The district court found "overwhelming" evidence to show that StreamCast operated its file-sharing network with the object of promoting infringing uses. According to the court, this evidence included StreamCast's attempts to target former Napster users, its technical assistance to infringers, and its failure to take steps to prevent infringement. In addition, various internal memos and e-mails from StreamCast indicated StreamCast's intent to design its software to encourage infringement. Because of this evidence, the court found StreamCast liable for inducing copyright infringement. MGM Studios, Inc., v. Grokster, Ltd., No. 01-08541, 2006 U.S. Dist. LEXIS 73714 (C.D. Cal. Sept. 27, 2006).

[47] *MGM Studios Inc*., 125 S. Ct. at 2779.

[48] *Id*. at 2773.

company documents indicate that StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster.'"[49] Although the Ninth Circuit asserted defendants could not be liable even though neither defendant developed filtering tools to prevent the infringement, here the Court held that the lack of filtering tools "underscore[d] Grokster's and StreamCast's intentional facilitation of their users' infringement."[50] The defendants also collected substantial revenue by selling advertising space and the more users defendants acquired, the more revenue they collected.[51] When combined with the marketing schemes and lack of filtering tools, the Court concluded "the unlawful objective intent [was] unmistakable."[52]

In her concurrence, Justice Ginsburg agreed with the majority and explained why the lower courts misperceived and misapplied the *Sony* rule.[53] Ginsburg stated that it was wrong for the lower courts to say that just because a product is *capable* of substantial noninfringing uses it is exempt from liability under *Sony*.[54] Rather, Ginsburg asserted that the distributor's *intent* for infringement is important to consider.[55] Here, Ginsburg concluded that defendants' "products were, and had been for some time, overwhelmingly used to infringe" and "the evidence was insufficient to demonstrate… a reasonable

[49] *MGM Studios Inc*., 125 S. Ct. at 2773.

[50] *Id*. at 2781.

[51] *Id*. at 2781-82.

[52] *Id*. at 2782.

[53] *Id*. at 2783.

[54] *Id*. at 2784-85.

[55] *Id*. at 2786.

prospect that substantial or commercially significant noninfringing uses were likely to develop over time."[56]

Justice Breyer also agreed with the majority, but believed that the defendants passed the *Sony* test because the product at issue was capable of substantial or commercially significant noninfringing uses. Breyer reasoned that because *Sony* used the words "'*capable of*' substantial noninfringing uses…i]ts language and analysis suggest that a figure like 10% [out of all downloads which are noninfringing], if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time."[57] Breyer also provided some examples of how this type of product can be capable of substantial noninfringing uses over time, which included research information, public domain films, historical recordings and digital educational materials.[58] Breyer noted that even though Grokster "may not want to develop these other noninfringing uses… *Sony*'s standard seeks to protect not the Groksters of this world … *but the development of technology more generally* (emphasis added). "[59] Breyer concluded that the *Sony* rule should not be modified because of the importance of protecting new technological advances such as P2P technology and the fact that copyright holders have other tools to combat piracy.[60]

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[56] *MGM Studios Inc*., 125 S. Ct. at 2786.

[57] *Id*. at 2789.

[58] *Id*. at 2790.

[59] *Id*.

[60] *Id*. at 2794-95 (explaining that these tools include bringing traditional infringement suits, developing "new technological devices that will help curb unlawful infringement" and promoting "lawful music downloading services").

THE *GROKSTER* AFTERMATH

The *Grokster* decision not only sent a shockwave through the P2P software industry, but also gave the RIAA and MPAA a tool to combat illegal file sharing.[61] In September 2005, the RIAA "sent cease-and-desist letters to EDonkey, BearShare, LimeWire, WinMX, Warez and two other firms."[62] Other P2P distributors took precautionary measures by yielding to music industry demands.[63] IMesh, another popular P2P software company, agreed to shell out $4.1 million and prevent users from illegal downloading.[64] In July 2006, the RIAA and Sharman Networks, Ltd. announced a settlement whereby Sharman agreed to use filtering tools to prevent illegal distribution of copyrighted material on their popular program, Kazaa.[65]

On November 7, 2005, Grokster agreed to shut down its services and pay $50 million to the music and movie studios.[66] "Under the terms of the agreement… Grokster could resume business once it comes up with an alternate strategy that compensates copyright owners."[67] David Israelite, CEO of the National Music Publishers' Association, stated that "[i]n addition to taking out a major player, [the settlement] again sends out a

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[61] *See* Burt Helm, *File-Sharing Sites' New Tune; Stung by the Grokster Shutdown, Other Music Services Such as EDonkey Are Scrambling to Find Partners with Legitimate Businesses*, BUS. WK. ONLINE, Nov. 8, 2005.

[62] Menn, *supra* note 11.

[63] *Id*.

[64] *Id*.

[65] Bary Johnson, *Kazaa Goes Legit Following Supreme Court Settlement*, PC MAGAZINE.COM, Jul. 27, 2006, http://www.pcmag.com/article2/0,1759,1995442,00.asp.

[66] Matthew Yi, *Grokster Settles Industry Lawsuit; File Sharing Firm to Pay $50 Million, Stop Distribution*, S.F. CHRON., Nov. 8, 2005, at D1.

[67] Helm, *supra* note 61.

clear message that this kind of service is illegal."[68] Israelite conceded that while *Grokster* may not stop illegal downloading as a whole, the decision may however stop some people from doing it.[69]

Some experts disagree that Grokster's demise will have any effect on other P2P software giants.[70] Eric Garland, chief executive of BigChampagne, a data tracking company, believes that the Grokster shutdown will not prevent users who have already downloaded the software from using it.[71] "When you shut down Napster, you shut down the Napster network," Garland said.[72] "When you shut down Grokster, you shut down a company but you don't shut down the network. Grokster is gone but these networks aren't controlled by Grokster or anyone else. They're open networks."[73] Garland asserted there are much more popular P2P distributors such as BitTorrent, and that Grokster's fall will not make a "dent."[74] "We all know the name of Grokster because of the Supreme Court case, but Grokster is a minor player in the [P2P] file-sharing space."[75] According to BigChampagne, file-sharing on P2P sites as of September 2005 increased to 9.3 million, up from 4.3 million in September 2003.[76]

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[68] Yi, *supra* note 66.

[69] *Id*.

[70] Kevin Allison, *The Battle for Grokster Leaves a War To Be Won*, FIN. TIMES, Dec. 20, 2005, at 12.

[71] *Id*.

[72] *Id*.

[73] *Id*.

[74] Yi, *supra* note 66.

[75] *Id*.

[76] Jonathan Krim & Grank Ahrens, *Legal Pressure Shutters Grokster; Recording Industry Cheers Move*, WASH. POST, Nov. 8, 2005, at D1.

CacheLogic, a P2P research company, also found similar results in a study they conducted in 2005. Cachelogic found that "Grokster did not result in a rapid decline in P2P usage."[77] The study showed that by 2004, "BitTorrent was accounting for as much as 30% of all Internet traffic."[78]

BITTORRENT'S LIABILITY UNDER *GROKSTER*

Because of its widespread use to download copyrighted works, BitTorrent emerges as the focus of the MPAA and RIAA's lawsuits in 2006.[79] The following will explore BitTorrent and analyze its business plan under *Grokster's* active inducement test. The analysis will show that while the BitTorrent technology passes the *Grokster* test, the Torrent search engines and index sites which direct users to download copyrighted material to other users fail the test because they are the entities that seek to profit off of their users' copyright infringement.

In 2001, programmer Bram Cohen created BitTorrent, a P2P file distribution tool which "enables downloaders to slurp up files that, in the days when Napster was still in diapers, seemed inconveniently bulky."[80] These huge files now account for more than 20% of Internet traffic at any one time.[81] Because BitTorrent allows users to transfer

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[77] Drew Wilson, *CacheLogic Study – P2P is Changing*, http://www.slyck.com/news.php?story=914 (Sept. 16, 2005) (last visited Oct. 21, 2006).

[78] *Id*.

[79] Daniel Roth & Oliver Ryan, *BitTorrent: The Great Disrupter*, FORTUNE, Oct. 31, 2005, at 68.

[80] Scott Galupo, *Hollywood's Real Threat: Downloading Big Daddy is Software BitTorrent*, WASH. TIMES, Nov. 11, 2005, at D01.

[81] Roth, *supra* note 79.

massive files, pirated movies which are traditionally large in size can be downloaded faster than ever.[82]

In order to fully assess BitTorrent's liability, a quick overview of the terminology associated with BitTorrent will prove helpful. A *user (or peer)* that is interested in obtaining files on BitTorrent must first download the BitTorrent client software.[83] Then, a user may search through hundreds of *Torrent search engines* (websites that tell the user which of the other users has the .torrent text file he or she wants).[84] When the user conducts a search, the site will list various .torrent files "contain[ing] meta data about shared files."[85] Once the user selects the desired file, he or she will then download the file to their hard drive and open the file in the Torrent software.[86] The software uses a *tracker server* which searches for those users who have the same file, a process called *swarming*.[87] Some Torrent search engines also act as tracker servers.[88] "As the tracker locates Torrent users to swarm with, each user will be automatically labeled as either a '*leech/peer*' or as a '*seed*.'"[89] A "*leech*" is a peer that only has part of a file whereas a

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[82] *See*,Wikipedia, *BitTorrent*, at http://en.wikipedia.org/wiki/Bittorrent (last visited Aug. 31, 2006).

[83] Paul Gil, *How to Download with BitTorrents: A Step-By-Step Explanation*, *at* http://netforbeginners.about.com/od/peersharing/a/torrenthandbook_4.htm (last visited Oct. 10, 2006).

[84] *Id*.

[85] Wikipedia, *BitTorrent*, at http://en.wikipedia.org.wiki/Bittorrent.

[86] Gil, *supra* note 83.

[87] *Id*.

[88] *BitTorrent tracker*, Wikipedia, http://en.wikipedia.org/wiki/BitTorrent_tracker (last visited Mar. 12, 2006). "A tracker should be differentiated from a BitTorrent index by the fact that it does not necessarily list files that are being tracked. A BitTorrent index is a list of .torrent files (usually including descriptions and other information). Trackers merely coordinate communication between peers attempting to download the payload of the torrents. Many BitTorrent websites act as both tracker and index."

[89] Gil, *supra* note 83.

"*seed*" is a peer who has the complete file.[90] Once everyone is swarmed, the process of downloading breaks down as follows:

> The BitTorrent protocol breaks down files into a number of much smaller pieces, typically a quarter of a megabyte in size. Larger file sizes typically have larger pieces… As peers enter the swarm, they begin sharing pieces with one another, instead of downloading directly from the seeder. Clients incorporate mechanisms to optimize their download and upload rates…Peers download pieces in a random order, to increase the opportunity to exchange data, which is only possible if two peers have a different subset of the file.[91]

A faster download will depend on a high number of "seeders" and will also be awarded to those peers that remain online to share their files, rather than leeching (i.e. signing off after they obtained the files they wanted).[92]

Foreign governments have already begun to attack Torrent search engines. "Police in Finland have raided the operations of a popular BitTorrent file download site, seizing equipment … at the houses four people who ran the site. Police also raided the houses of 30 volunteers who helped moderate the site."[93]

But does BitTorrent pass the active inducement test under *Grokster*? David Post provides the following steps in analyzing a technology's liability under *Grokster*:

> Are you distributing a product that is used to infringe copyrights? If no, stop: No contributory copyright liability…. If yes: are you-by overt 'words and deeds [that] show a purpose to cause and profit from third-party acts of copyright infringement'-actively encouraging or promoting infringement(s) by users? If yes, stop. You're liable as a contributory infringer. *MGM v. Grokster*. If no: Do you have 'actual knowledge of specific infringements' and the capability to stop those infringements? If yes, stop: You're liable as

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[90] Gil, *supra* note 83.

[91] Wikipedia, *supra* note 82.

[92] *Id*.

[93] Drew Cullen, *Finnish police raid BitTorrent site*, REG., Dec. 14, 2004, *available at* http://www.theregister.co.uk/2004/12/14/finnish_police_raid_bittorrent_site/.

> a contributory infringer. *A & M v. Napster.* If no: Is the product 'capable of substantial noninfringing use'? If yes, stop: You're within the *Sony* safe harbor, and shielded from liability. If no, stop: You're liable as a contributory infringer, because we will impute the requisite intent to encourage infringement to you.[94]

Applying this test we find that BitTorrent fails the first question because it may be used to infringe copyrights. While no study has shown exactly how much of its traffic is used to download copyrighted works, a search of one of the index sites will show that copyrighted works may be downloaded.[95]

The next question is whether BitTorrent intended to profit from users downloading these copyrighted works. It is important here to distinguish between the actual technology created by Cohen and the Torrent index sites which are directing users to find and trade copyrighted works with each other. Such a distinction is warranted because the BitTorrent software itself "does not offer a search facility to find files by name."[96] Because the searches are facilitated by Torrent search engines, movie and TV studios believe these sites are in a better position to supervise and limit the files that are being downloaded.[97] The MPAA, for example, recognizes this distinction and has decided to go after the sites rather than BitTorrent itself.[98]

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[94] Post, *supra* note 2.

[95] On TorrentSpy.com, http://ts.searching.com/search.asp?h=&query=the+beatles (last visited Oct. 6, 2006). Entering "the beatles" into a search will result in numerous .torrent files where you may obtain albums such as Abbey Road, Magical Mystery Tour, and The White Album.

[96] Wikipedia, *supra* note 82.

[97] *Movie and TV Studios Sue Web Site Operators for Enabling Infringement,* 4-5 MEALEY'S LIT. REP. COPYRIGHT 12 (June 2005).

[98] *See* Brock Read, *File-Swapping Network Closes After Attacks by Entertainment Companies*, 52 CHRON. OF HIGHER EDUC. (2005).

Did Cohen intend to profit off users downloading copyrighted files? In addition to trying to solve the problem of moving massive files across cyberspace, Cohen has said that one of the purposes of developing BitTorrent was "to allow devotees of bands that allow their concerts to be recorded to share copies with other fans."[99] BitTorrent's critics, however, may point to a 2001 statement by Mr. Cohen that may evidence his intent to promote piracy: "I further my goals with technology. I build systems to disseminate information, commit digital piracy . . . . I refuse to work on technology to track users, analyze usage patterns, watermark information, censor, detect drug use, or eavesdrop."[100]

However, Mr. Cohen asserts that because BitTorrent "operates without encryption or any attempt to hide its users' activity," the software should not take the blame.[101] Cohen also distinguishes his software from that of Napster and Grokster.[102] "I've made a very-general-purpose tool that can be used for anything. Napster was designed like a covert application for copyright infringement. BitTorrent is for publishing things which you own."[103]

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[99] Jonathan Krim, *High-Tech Tension Over Illegal Uses; Supreme Court Will Consider Devices That Help Users Copy, Share and Steal*, WASH. POST, Feb. 22, 2005, at E01.

[100] Ernest Miller, *BitTorrent and Grokster: How Much Intent Does It Take?* (2005), http://www.corante.com/importance/archives/2005/06/28/bittorrent_and_grokster_how_much_intent_does_it_take.php (last visited Jan. 21, 2006).

[101] Roth, *supra* note 79.

[102] Steven Levy, *No, It's Not the New Napster; BitTorrent's Creator Says He's Building a Business, Not a Pirate Network*, NEWSWEEK, Nov. 28, 2005, at 48.

[103] *Id*.

Mr. Cohen also notes that he does not receive any money when users illegally download copyrighted works.[104] Instead he is currently supported by venture capitalists and optional donations on his website.[105] In May 2006, however, Cohen struck a deal with Warner Brothers to sell over 200 movies and TV programs through BitTorrent.[106] Kevin Tsujihara, president of Warner Brothers Home Entertainment Group, said the agreement was essential to BitTorrent's future growth.[107] Additionally, it is worth noting that since its introduction BitTorrent has had numerous charitable benefits, such as enabling users all over the world to download amateur videos of the 2004 tsunami, "helping to spur an outpouring of charitable aid."[108]

Since evidence suggests that BitTorrent does not profit off of their users copyright infringement, the next question in the analysis is whether Mr. Cohen has "actual knowledge of specific infringements and the capability to stop those infringements?"[109] Although Mr. Cohen may have general knowledge that people are using his software to download copyrighted material, he has taken steps to prevent users from doing so.[110] In November 2005, Mr. Cohen and movie studios signed an agreement whereby BitTorrent would agree "to remove links on [BitTorrent's] website that direct users to illegal copies

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[104] Roth, *supra* note 79.

[105] *Id.*

[106] Burt Helm, *BitTorrent Goes Hollywood*; *Once the choice of movie pirates, BitTorrent will now help Warner Bros. sell its films and TV shows*, BUS. WK. ONLINE (May 9, 2006), http://www.businessweek.com/technology/content/may/2006/tc20060508_693082.htm.

[107] *Id*.

[108] Krim, *supra* note 99.

[109] Post, *supra* note 2.

[110] Reuters, *Movie studios, BitTorrent sign antipiracy pact* (Nov. 23, 2005), http://www.crn.com.au/story.aspx?CIID=25959&r=rstory.

of films that can be downloaded."[111] This is just one concession that the movie industry considers a step in the right direction.[112]

The next question is whether BitTorrent is capable of substantial non-infringing uses, such that it would fall under *Sony's* safe harbor rule and preclude liability.[113] In *Grokster*, Justice Breyer asserted that because Grokster was capable of substantial non-infringing uses, it passed *Sony's* test.[114] Here, BitTorrent similarly is capable of substantial non-infringing uses.[115] BitTorrent opponents may argue that because of the sheer volume of files traded with the software and because you can find copyrighted material such as "Microsoft Office 2003, Alfred Hitchcock's Rear Window, episode two of CBS's Ghost Whisperer," BitTorrent has substantial infringing uses.[116]

But as noted earlier, BitTorrent was originally created so that fans of jam bands could download their performances, an act which was authorized by the bands themselves.[117] Additionally, other companies have been using BitTorrent to further their enterprises. "Gamemaker Blizzard Entertainment uses BitTorrent to distribute the two-gigabyte World of Warcraft game…and all the patches that go with it… Sun Microsystems is using BitTorrent to make available its entire Open Solaris operating

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[111] Reuters, *supra* note 110.

[112] *Id*.

[113] *See Sony*, 464 U.S. at 456.

[114] *MGM Studios, Inc*., 125 S. Ct. at 2786.

[115] Krim, *supra* note 99.

[116] Roth, *supra* note 79.

[117] Krim, *supra* note 99.

system to tens of thousands of users."[118] Also, film companies such as ADV Films have used BitTorrent to distribute trailers of their upcoming films.[119]

Because it does not profit off of third-party acts of copyright infringement, and because it is capable of substantial noninfringing uses, BitTorrent likely passes *Grokster's* active inducement test. Finally, the fact that BitTorrent has actual knowledge of general infringement but has agreed to remove copyrighted files from *their* site is further evidence precluding liability under the *Grokster* test in the event they are sued for contributory liability.

Torrent search engines and index sites, on the other hand, may have a more difficult time passing the test. These sites provide links for users allowing them to locate copyrighted material.[120] Users may visit these sites, enter the desired movie or song in a search field and click on the file they wish to download.[121] When a user clicks on a file the torrent connects the user to a tracker, which may also be operated by the index site.[122] As of June 2006, six index sites were being sued for contributory liability.[123] These sites have argued that (1) because they don't upload the links to the copyrighted materials

[118] Roth, *supra* note 79.

[119] *Id*.

[120] *Id*.

[121] *Movie and TV Studios Sue Web Site Operators for Enabling Infringement, supra* note 97.

[122] *Id*.

[123] *Id*.

themselves, they are not contributory liable and (2) there is no evidence of direct or actual infringement.[124]

But according to David Post's *Grokster* analysis, if these sites do intend to profit off third party copyright infringement, there's no need for further investigation to find contributory infringement.[125] When performing a search on a well-known copyrighted group like "the Beatles" on the most popular BitTorrent index sites,[126] one will come up with numerous copyrighted titles with advertising on the left, right, top, and bottom of the search result page.[127] It is worth noting that these sites previously had a Napster advertisement on the search result page, which the Supreme Court found particularly dispositive of contributory liability in *Grokster.*[128]

More recently, it is evident from the movie and music industries' actions since *Grokster* that Mr. Cohen and BitTorrent will be safe at least for now, while these sites will feel the brunt of the lawsuits.[129] Mr. Cohen has been willing to cooperate and still

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[124] Defendant's Memorandum of Points and Authorities in Support of Defendants' Motion to Dismiss for Failure to State a Claim at 7-13, Columbia Pictures v. Justin Bunnell, No. 06-01093 (May 8, 2006) *available at* www.techfirm.com/mtdtorrentspy.pdf.

[125] *See* Post, *supra* note 2.

[126] Paul Gil, *The Top 35 Torrent Sites of 2006*, http://netforbeginners.about.com/od/peersharing/a/torrent_search.htm (last visited Sept. 21, 2006).

[127] *Meganova Torrents: Fast, Clean, and Reliable!*, http://www.meganova.org/search.php?search=&sugo=the+beatles (last visited Aug. 15, 2006); Torrentspy.com – The Largest BitTorrent Search Engine, *at* http://torrentspy.com/search.asp?h=&query=the+beatles&submit.x=0&submit.y=0 (last visited Aug. 15, 2006).

[128] Torrentspy.com – The Largest BitTorrent Search Engine, http://torrentspy.com/search.asp?h=&query=the+beatles&submit.x=0&submit.y=0 (last visited Aug. 15, 2006).

[129] *See* Roth, *supra* note 79.

believes his technology is legitimate and may serve many useful purposes in the future.[130] "BitTorrent is just a transport protocol like HTTP. There's nothing in the technology that has to do with copyright or digital rights management. It's about how files are moved around, not about the files themselves."[131]

GROKSTER'S EFFECT ON P2P TECHNOLOGY

So what does this all mean for other P2P software distributors? Many experts agree that as a result of *Grokster* technology firms must not only be wary of their marketing strategies but also must be aware of how their software is being used.[132] Peter Pizzi, a business and technology litigation attorney, believes that technology firms will be under attack and it won't take much to find "an intent to benefit from infringing conduct."[133] Pizzi writes that "if the evidence relied upon by the Court in *Grokster* is any indication, it will hardly take a 'smoking gun' to find against the technology firm."[134]

Fred von Lohmann, a senior staff attorney for the Electronic Frontier Foundation, also agrees that *Grokster* presents increased liability for technology firms.[135] "By focusing on intent," von Lohmann argues, "the Supreme Court has opened the door to lawyers asking to see the notes from engineering meetings, the plans of marketing

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[130] Doug Kaye, *The BitTorrent Debate*, THE WHIR, Mar. 3, 2005, http://thewhir.com/features/kaye-debate.cfm (last visited Jan. 11, 2006).

[131] Kaye, *supra* note 130.

[132] Peter J. Pizzi, *Grokster Means More Litigation for Tech Firms*, 181 N.J.L.J. 491, Aug. 8, 2005.

[133] *Id*.

[134] *Id*.

[135] Cathleen Flahardy, *Grokster Creates New Liabilities For Tech Industry*, CORP. LEGAL TIMES, Aug., 2005.

developments and the e-mails of technology company executives. That is a very expensive threat for technology companies to face."[136] This expense presents a gloomier outlook for smaller firms who are unable to bear such an expense.[137]

Additionally, increased litigation against tech firms is thought to stifle the development of new technologies.[138] Michael Pettricone, Vice President of Technology Policy for the Consumer Electronic Association, warns that this decision threatens the viability of many American tech firms.[139]

> As a technology industry, we now exist in a highly competitive world… We are faced with competitors in China and India who do not face the same kind of litigation burden as do companies in the U.S. With this decision, the legal clarity has decreased and the risk of litigation has increased.[140]

Gregory Aldisert, an entertainment law attorney in Los Angeles, disagrees with this assertion and believes there are successful companies that play by the rules and do not infringe on copyright.[141] He cites the popularity of Apple's iTunes, where users may purchase songs for $0.99.[142] Aldisert also believes that *Grokster* will not have the increase in litigation that many think because "if the distributors such as Grokster and StreamCast can be shut down through this case, the RIAA won't have to go after the individual infringers because those individuals will no longer have the tools they need to

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[136] Flahardy, *supra* note 135.

[137] *Id*.

[138] *Id*.

[139] *Id*.

[140] *Id*.

[141] *Id*.

[142] *Id*.; *See also* http://www.itunes.com.

infringe."[143] Justin Hughes, assistant professor at Cardozo Law School, also believes that risk to tech firms has been overstated after *Grokster* and advocates more of an economic position.[144] "[A]n investor always asks about a viable business model before investing in new technology. If the business model for the new technology depends on obvious, widespread infringement, the investor ought to take their money elsewhere."[145]

HOW DOES A P2P SOFTWARE DISTRIBUTOR AVOID LIABILITY IN A POST-*GROKSTER* WORLD?

One year after the decision, it is unclear whether *Grokster* has the effect on technological innovations that Pizzi, von Lohmann, and Petticone discuss.[146] But one thing seems to be clear: a court will find a company contributorily liable by looking at the company's conduct.[147] "By focusing on software manufacturers' intent rather than the technology involved Grokster reflects the beneficial policy of avoiding interference with the processes by which new technologies are developed."[148]

There are several things a company may think about in order to avoid liability. First, if *Grokster* focuses on intent, in order for companies to avoid liability they will

[143] Flahardy, *supra* note 135.

[144] Sam Mamudi, *Supreme Court provides IP guidance*, EUROMONEY INSTITUTIONAL INVESTOR, Oct. 1, 2005, at S6.

[145] *Id*.

[146] Stephen W. Feingold, Marc A. Lieberstein & Eric C. Osterberg, *Secondary Liability After MGM v. Grokster*, METRO. CORP. COUNSEL, Sept. 2005, at 12.

[147] *Id*.

[148] *Id*.

have to reevaluate their business plans.[149] Annette Hurst writes that lawyers will have to advise their clients not to say or do anything that may be interpreted the wrong way.[150] Hurst also adds that small firms are at risk because they "cannot afford sophisticated legal guidance."[151]

Matthew Neco, general counsel of StreamCast Inc., also advises practitioners to not only look at a company's business plan but also its "marketing activities, product design and development, as well as finance raising efforts."[152] In a webcast interview, Neco stated, "if your client happens to be engaged in either developing, distributing, or financing a product that is capable of copyright infringement, [then] you're going to have to be pretty hands on and pretty involved right from the very get go."[153] In addition, Neco believes that if a company creates a product that may be used for copyright infringement and they get sued, the company needs to be prepared to open up their doors to discovery.[154] This means that companies must be aware that every idea, thought, e-mail, etc. that was used in creating the software may be revealed during trial.[155]

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[149] Annette Hurst, *Deconstructing 'Grokster': The ruling offers little predictability -- other than for more litigation*, THE RECORDER, Nov. 8, 2005, at I21.

[150] Hurst, *supra* note 149.

[151] *Id*.

[152] Neco, *supra* note 14.

[153] *Id*.

[154] *Id*.

[155] *Id*.

CONCLUSION

There have been numerous developments in the P2P community since the Supreme Court handed down its decision in *Grokster*. The Court clarified the *Sony* rule stating unanimously that a P2P software distributor may be liable if they actively induce copyright infringement, regardless of the software's legal uses.[156] However, the Court also intended to protect technological innovation.[157] While Torrent search engines and index sites fail the active inducement test because they intend to profit off of copyright infringement, the BitTorrent software itself passes the *Grokster* test because it does not intend to profit off of infringement, has begun to cooperate with the music and movie industries, and is capable of substantial noninfringing uses.[158] Mr. Cohen's concessions provide a good model for other P2P companies who actively induce copyright infringement. If these companies do not want every one of their documents, e-mails, and marketing plans revealed in litigation, and they believe they fail *Grokster's* active inducement test, they must be open to the reform BitTorrent has displayed in its various settlements with the movie and recording industries.[159]

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[156] *MGM Studios Inc.,* 125 S. Ct. at 2780.

[157] *Id*. at 2794-2795 (Breyer J., concurring).

[158] *See* Post, *supra* note 2.

[159] *See* Helm, *supra* note 106.