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### **Initial Analysis of the *Grokster* Remand Opinion: Unsurprising Outcome, But Caution Needed in Applying Language to Future Cases**

Last month, the U.S. District Court hearing the remand of the *Grokster* case issued an opinion ([link below](#)) holding StreamCast (the sole remaining defendant in the case) liable for secondary copyright infringement under the “inducement” theory articulated in *Grokster*.

The *Grokster* Supreme Court decision had signaled that all of the actions of StreamCast, taken together, seemed to point towards liability for inducement. These actions included StreamCast’s purposeful efforts to recruit Napster users, affirmative responses to users requesting help in locating or playing copyrighted materials, internal emails showing intent to serve former Napster users, and failure to take steps to combat infringement on its network. StreamCast also benefited financially from the high volume of infringing uses. This set of actions and facts appeared to the Supreme Court to provide ample basis for liability. Indeed, the Supreme Court reviewed the evidence and concluded, “[t]he unlawful objective [of StreamCast] is unmistakable.” Thus, the decision on remand as to this same defendant is not particularly surprising.

There remains some risk, however, that certain passages from the lower court decision could be misused in future cases with very different overall factual contexts. In particular, it is important that the court’s discussion of individual factors contributing to liability not be read to signal that liability could be triggered in future cases by any of those individual factors standing alone.

CDT has argued that the Supreme Court’s *Grokster* decision, properly interpreted, preserves secondary liability as a powerful tool against copyright infringement but also entails some significant limits on the scope of this liability. Careful attention to those limits in future cases will be key to maintaining the balance that the Court sought, as overbroad application of secondary liability could severely chill innovation. CDT’s argument is set forth in detail in a 2006 article in the *Stanford Technology Law Review* ([link below](#)).

Nothing in the new decision contradicts CDT's analysis, but several passages potentially could be cited out of context by supporters of a more unconstrained view of the Supreme Court's *Grokster* holding and a lower threshold for imposing inducement liability.

For example, the District Court said: "*although StreamCast is not required to prevent all the harm that is facilitated by the technology, it must at least make a good faith attempt to mitigate the massive infringement facilitated by its technology.*" On its face, this language could be read to suggest an affirmative obligation for technology providers to make design changes to reduce infringing uses. But such a reading would be inconsistent with the Supreme Court decision.

The Supreme Court said that failure to attempt to mitigate infringement could be considered (among other factors) as evidence of intent, but could *not* by itself support liability. Thus, failure to take affirmative steps to mitigate – by, for example, making design changes to a product – does not automatically lead to liability. Put another way, there is no *requirement* to make design changes aimed at reducing infringement. This is a significant point, because imposing an affirmative obligation would put courts in the role of actively second-guessing technology design decisions.

The District Court also said: "*Plaintiffs need not prove that StreamCast undertook specific actions, beyond product distribution, that caused specific acts of infringement. Instead, Plaintiffs need prove only that StreamCast distributed the product with the intent to encourage infringement.*" In isolation, this could be taken to suggest that inducement liability does not require a showing of active steps to promote infringement, other than distribution of a product that can be put to infringing use. But the Supreme Court opinion said that the requisite intent could only be shown by "clear expression or other affirmative steps taken to foster infringement." Thus, affirmative steps promoting infringement remain an essential prerequisite for inducement liability.

A careful reading suggests that the District Court in this part of the opinion may have been trying to say merely that there was no need to establish a *causal* link between StreamCast's actions promoting infringement and specific, individually-identifiable instances of infringement. An earlier sentence in the opinion makes the same point: "*Importantly, liability may attach even if the defendant does not induce specific acts of infringement.*" The question the court was addressing is whether it is necessary to prove that a defendant's acts of promotion actually caused some specific instance of infringement – not whether it is necessary to prove that the defendant encouraged infringement in the first place.

Moreover, it is worth noting that the Supreme Court's footnote 13, which the District Court cited for both statements, was in no way intended to suggest that distribution by itself, without promotion, could warrant liability. The point of the footnote was simply to reject an argument that liability for distributing a technology and liability for actions promoting infringement were two entirely separate questions that had to be analyzed separately. The Court said that under the inducement theory, the "culpable act" (singular) was the entire course of conduct – distributing a product, while intending and

taking active steps to encourage its use for infringement. Distribution can be part of a culpable course of conduct, but only if active steps to encourage infringement are present as well.

The District Court also pointed to numerous internal emails and other intra-company communications as evidence of StreamCast's intent. This could be cited by future litigants attempting to justify "fishing expeditions" in which plaintiffs seek extensive discovery of a company's internal emails and communications in the hope of finding something indicating bad intent. But as we discussed in our article, CDT believes a better reading of the Supreme Court decision is that internal communications, like failure to take steps to combat infringement, are corroborating evidence. There first needs to be some evidence of outward-facing statements or actions encouraging or promoting unlawful use before discovery can be initiated.

In the case of StreamCast, there was evidence of active and outward-facing steps to promote infringement. For example, the District Court's opinion noted that StreamCast's targeting of Napster users included running banner ads and sending agents into chat rooms to target Napster users. So this was not a case in which the only actions taken by the defendant were distribution of a product and the only evidence of culpable intent was internal emails. Therefore, there is reason to hope that future courts will recognize that the recent District Court case does not provide supporting precedent for imposing liability (or authorizing fishing expeditions) in cases with scant evidence of active steps affirmatively promoting or encouraging infringement. Striking the right balance on the issue of secondary liability will require courts to limit secondary liability to those who truly engage in bad behavior, and to refrain from creating chilling new litigation costs for legitimate innovators.

Links:

Lower Court Decision (links to Electronic Frontier Foundation's site):

[http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/motion\\_summary\\_judgement.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/motion_summary_judgement.pdf)

CDT's Stanford Technology Law Review Article: Grokster Decision:

[http://stlr.stanford.edu/STLR/Perspectives/06\\_STLR\\_3/CDT-grokster.pdf](http://stlr.stanford.edu/STLR/Perspectives/06_STLR_3/CDT-grokster.pdf)

More on Digital Copyright:

<http://www.cdt.org/copyright>