

Client Alert

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A Focus on Filters: Latest Developments in *MGM v. Grokster*

By David O. Blood

Introduction

In the latest chapter of the long-running *MGM v. Grokster* case, the US federal district court in Los Angeles recently granted a permanent injunction against StreamCast Networks, ordering StreamCast to implement a content filter in its peer-to-peer (P2P) file-sharing software (known as Morpheus), which filter must represent "the most effective means available to reduce the infringing capabilities of the Morpheus Software and System, while preserving its core non-infringing uses."¹

In an unusual move, the court appointed a technical expert to examine StreamCast's software and external available filtering technologies, and to make recommendations regarding the "best tools through which effective filtering technology can be put in place,"² and what actions should be taken with respect to legacy versions of StreamCast's software that would not include such filtering technology. With its order, the court effectively limited StreamCast's ability to select and control the filters that may be incorporated into its own software. At the same time, the court ordered the plaintiff copyright holders to share with StreamCast certain identifying information on the copyrighted works to help StreamCast implement a satisfactory filter for those works.

This court order should be considered in the context of the ongoing *Viacom International, Inc. v. YouTube, Inc.*³ lawsuit and two major industry pronouncements last month: one from YouTube unveiling a beta-test filter using digital-fingerprinting technology, called "YouTube Video Identification,"⁴ and another from several major media and technology companies outlining a set of collaborative principles to protect copyrighted content online, including support of filtering technologies.⁵ These recent developments, considered together, may point to a shift in the responsibility (or at least advisability) of online content distributors to play a more proactive role in protecting the rights of content providers.⁶ Online content distributors and content providers should carefully evaluate their respective content filtering and copyright protection policies and practices in light of these developments.

Background: The Original *MGM v. Grokster*

In Latham & Watkins' *Client Alert* No. 474, "[MGM v. Grokster: The Supreme Court Revisits the Parameters of Secondary Liability for Copyright Infringement](#)" (Aug. 16, 2005),⁷ we reviewed and commented on the US Supreme Court's decision in *MGM*

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*Studios Inc. v. Grokster, Ltd.*⁸ The plaintiffs in *Grokster* are a collection of major motion picture studios, record labels and individual copyright owners that sued several software companies that developed and distributed P2P file-sharing software used by end-users to share music and videos, in many cases infringing copyrights by doing so. The plaintiffs argued that the defendant companies were complicit in the copyright infringement.⁹ The defendants asserted in response that they were protected by prior Supreme Court precedent in *Sony Corp. of America v. Universal City Studios, Inc.*¹⁰ Under *Sony Corp.*, a maker of technology used to infringe copyright could not be held liable for such infringement even if it was aware that the technology was being used for the purpose of infringement, so long as the technology was “capable of substantial noninfringing uses.”

The defendants in *Grokster* won on summary judgment at both the lower district and appellate courts, based on the reasoning established by the *Sony Corp.* holding. The Supreme Court, however, took a different view. The Supreme Court held that whether or not a technology is capable of substantial noninfringing uses (the deciding factor in *Sony Corp.*), “one who distributes a device with the object of promoting its use to infringe copyright . . . is liable for the resulting acts of infringement by third parties.”¹¹ The Court noted three facts evidencing the *Grokster* defendants’ intent to induce infringement: (1) the defendants’ efforts to market and provide services to former Napster¹² users; (2) the defendants’ failure to develop filtering tools or other mechanisms to diminish the infringing activity; and (3) the defendants’ profiting from such infringement.¹³ The case was reversed and remanded to the federal district court, with the Supreme Court pointedly noting that “[t]here is substantial evidence in MGM’s favor on all elements of inducement.”¹⁴

On remand, the district court granted summary judgment for the plaintiffs, finding the defendants liable under the Supreme Court’s inducement theory of copyright infringement. *Grokster* and other defendants eventually settled with the plaintiffs, leaving StreamCast as the only remaining defendant in the case.

The Permanent Injunction: Taking StreamCast Out of the Programmer’s Chair

After obtaining summary judgment in their favor, the plaintiffs in the case sought a permanent injunction against StreamCast, requesting that StreamCast be prevented from operating, supporting, promoting, licensing or distributing any P2P file-sharing software until it could prove that the software “exhaustively” prevented users from infringing “any” copyrighted material.¹⁵ The district court read the requested injunction as requiring StreamCast to implement a “perfect” filter that would prevent all infringement of copyrighted material, a requirement that the court felt exceeded the bounds of the judgment.¹⁶ The court pointed out that evidence indicated there was no technologically feasible way to prevent any and all infringement from occurring on a P2P system such as StreamCast’s, and hence a perfect filter was impossible.¹⁷ Such a requirement would have been an indirect ban on StreamCast’s file-sharing software, a result the court declined to reach because it would have prohibited legal use of the software.¹⁸

Instead, the court granted a permanent injunction that aimed “to reduce Morpheus’ infringing capabilities, while preserving its core noninfringing functionality, as effectively as possible,”¹⁹ which includes the duty of StreamCast to (among other things) implement a filter as part of its P2P software and take steps to “encourage end-user upgrades from non-filtered legacy software.”²⁰ The court specified that consideration

of the cost of implementing the order “would come into consideration . . . only where the difference in effectiveness is minimal and the discrepancy in cost is substantial.”²¹

Most significantly, the court decided to permanently appoint a technical expert to help the court assess what would be the most effective filtering system (including, potentially, a combination of methods and technologies), and to implement and monitor such system. After studying proposals by both the plaintiffs and the defendant StreamCast, as well as independently studying other alternatives, the expert will prepare for the court a final report setting out “a comprehensive regimen of the actions StreamCast needs to undertake, the forms of filtering necessary, and the methods for implementation of these tools. . . . To the extent that StreamCast must take any actions in order to impose the filtering system, the [expert] will provide a detailed explanation of the steps required to achieve such filtering.”²² While StreamCast will be able to offer its own proposals as to what will constitute an effective filter, StreamCast will ultimately have no control over the final decisions regarding the type of filter and implementation of the filter. Those decisions will be placed in the hands of the court, after considering the recommendations of its appointed expert. In short, StreamCast faces the prospect of losing control over a significant aspect of its P2P file-sharing software, and the requirement that it more proactively police the content distributed via its software.

Plaintiff Copyright Holders Have to Give StreamCast Notice

In granting the injunction against StreamCast, the district court was also wary of punishing StreamCast simply for the design of its P2P file-sharing system. One of its concerns was the possibility that StreamCast would be found to

violate the injunction because it failed to filter obscure copyrighted material or copyrighted material that had been illegally “leaked” before public release.²³ For that reason, the court ordered the plaintiffs to provide StreamCast with identifying information that would assist StreamCast in effectively implementing the content filter. The court ruled that while the plaintiffs did not need to provide StreamCast with “hash values,”²⁴ they were required to provide StreamCast with the names of artists and titles of their copyrighted works, a certificate of ownership over the copyrighted works, and evidence that one or more files containing the copyrighted works were available through StreamCast’s software.²⁵

It is worth noting that the duty to implement an effective filter only commences upon the provision of identifying information to StreamCast: “Once plaintiffs have provided [such] basic information . . . the burden of implementing an effective filtering solution rests on StreamCast. . . . StreamCast’s duty to filter any particular copyrighted work will commence upon Plaintiffs’ provision of notice.”²⁶ StreamCast therefore has no duty to filter or otherwise police the infringement of copyrighted content for which it has not been put on notice.

Recent Industry Pronouncements Regarding Online Copyright Protection

On the eve of the StreamCast court order in the *Grokster* case, YouTube announced the public testing of its latest tool for content management: YouTube Video Identification. According to a Google Blog entry authored by YouTube’s Product Manager, this new technology “will help copyright holders identify their works on YouTube, and choose what they want done with their videos: whether to block, promote or even—if a copyright holder chooses to license their content to appear on

the site—monetize their videos.”²⁷ YouTube emphasized that the new Video Identification software will require cooperation from copyright owners to help YouTube recognize their works.²⁸ Reportedly, participating content owners will provide YouTube with a copy of the content to be protected; YouTube will then use that copy to create a set of digital fingerprints that is used to identify copies of such content that is uploaded to the YouTube site.²⁹

Within two days after YouTube’s announcement, several Internet and media industry leaders (which notably included Viacom, Disney, Fox, CBS, NBC Universal, Microsoft and MySpace, but excluded Google and YouTube), released a joint statement of “Principles for User Generated Content Services.”³⁰ According to the joint authors, the principles are intended to be guidelines that will balance the need to “foster online innovation while protecting copyrights.” Among the principles outlined in the statement (which in certain key respects go beyond simply “filtering” content) are the following concepts:

- “implementation of state of the art filtering technology with the goal to eliminate infringing content on user-generated content services, including blocking infringing uploads before they are made available to the public;”
- “regularly using the technology to remove infringing content that was uploaded before the technology could block it;” and
- “removal of links to sites that are clearly dedicated to, and predominantly used for, the dissemination of infringing content.”

The importance of these industry announcements are particularly pronounced with the backdrop of the lawsuit commenced by Viacom against YouTube last March, accusing YouTube of copyright infringement,³¹ including allegations of induced infringement

akin to those found in *Grokster* that resulted in the StreamCast permanent injunction. YouTube responded to the lawsuit claiming, in part, that it had taken all actions required by the Digital Millennium Copyright Act (DMCA)’s safe harbor provisions (and more), and thus could not be held liable for infringing material posted by its users, so long as YouTube continues to remove such material upon notification by the proper copyright holder. Viacom alleged that YouTube knowingly permits, and profits from, infringing material on its site and thus is not qualified for safe harbor protection under the DMCA. While resolution of this dispute by the courts might provide some greater clarity regarding the application of the DMCA safe harbor rules and the limits to the inducement theory of liability established by *Grokster*, an out-of-court settlement could be reached without the courts deciding the merits of the parties’ positions; however, for now, Viacom is undeterred in its lawsuit against YouTube, and has pointed out that the new YouTube filter is not proven to work and does not address past damages suffered by Viacom.³²

Consider the Impact on the Online Copyright Protection Landscape

The district court’s permanent injunction in *Grokster* applies only to StreamCast, and was implemented in the context of multiple factors supporting the court’s determination of StreamCast’s liability for inducement of infringement. Yet the decision, when considered in the context of the recent industry announcements described above, should cause technology companies that disseminate third-party content, as well as copyright holders, to revisit their policies and procedures regarding the online protection of copyrighted content.

Considerations For Technology Companies Disseminating Third-Party Content

A full discussion of compliance with copyright law, particularly the provisions and safe harbors in the DMCA, is outside the scope of this *Client Alert*. But for the reasons outlined below, technology companies that disseminate online user-posted content should consider implementing safeguards (such as content filters) to protect against claims of inducement of copyright infringement, particularly if such parties potentially earn revenue from infringing content (whether or not such revenue is ancillary to the actual infringement itself). Some key lessons learned from the *Grokster* decision and related court ordered injunction include:

- Failure to implement safeguards against copyright infringement by end-users may be considered evidence that a provider of technology or online services that distributes infringing content intends to facilitate such infringement. This was a factor that weighed against StreamCast in the Supreme Court decision of *MGM v. Grokster*, where the Court noted the fact that StreamCast did not attempt “to develop filtering tools or other mechanisms to diminish the infringing activity using their software . . . underscores [StreamCast’s] intentional facilitation of their users’ infringement.”³³ A proactive approach to effective content filtering may therefore be a helpful step towards avoiding liability for inducement of infringement. Further, the recent announcement by YouTube of its Video Identification system, and the joint release of “Principles for User Generated Content Services” by multiple Internet and media industry leaders suggests an industry shift toward online content distributors playing a more proactive role in filtering out user-posted content that infringes third-party copyrights.

- If a company is forced to implement copyright safeguards as a result of a court order, the risk is heightened that the court’s focus will be on protecting the rights of copyright holders, not the financial interests of the company. In the StreamCast injunction, the court specifically stated that the “fact that an adjudicated infringer may have to expend substantial resources to prevent the consummation of further induced infringements is not a central concern.”³⁴ If content filtering or copyright protection is left to be determined by the courts, the reasonable expectation is that there will be little regard for the company’s bottom line.

Considerations For Copyright Holders

While the district court’s injunction and latest rulings in *MGM v. Grokster* may largely be seen as a victory for copyright holders, even under this permanent injunction the burden has not completely shifted to the content distributor. In its order, the district court reiterated the principle that “one cannot be held liable for contributory infringement under *Sony* merely for distributing a product capable of substantial noninfringing uses, **even with knowledge that the product is used to infringe.**”³⁵ Before StreamCast is required to filter any copyrighted content, the plaintiffs must first disclose to StreamCast basic identifying information regarding such content. The plaintiffs in *Grokster* allegedly even initially resisted providing StreamCast with a list of artists whose works they wished to have filtered.³⁶ The court’s order made it clear that if StreamCast receives no notice that a copyright holder wished a certain work to be filtered out, then StreamCast has no obligation to filter out such work.³⁷ Similarly, YouTube’s beta filtering service will require the cooperation of content owners to submit to YouTube copies of the content to be filtered.

Such a notification requirement may be considered analogous with the safe harbor provision of the DMCA,³⁸ which grants an online service provider protection from secondary liability in an infringement action, provided that the service provider promptly acts to remove infringing material once it is notified of such infringement.

Under both the DMCA safe harbor and the *Grokster* injunction, the burden lies with the copyright holder to provide notice of the protected work. In contrast to the DMCA safe harbor, however, the filter required of StreamCast pursuant to the *Grokster* injunction goes beyond simple compliance with DMCA safe harbor notice and take-down procedures, by requiring StreamCast to take a more proactive role in identifying, filtering and ultimately limiting public access to certain content in the first instance. Similarly, the technology released by YouTube, and the Principles for User Generated Content Services each purport to provide a more proactive role by the content distributors to protect third-party copyrights. While copyright holders may be understandably reluctant to disclose too much valuable identifying information on their copyrights (including copyrighted content that may not have been released to the public yet), or to submit entire copies of content for digital fingerprinting, it is clear that some level of copyright owner cooperation will be required for effective filtering to be implemented.

Conclusion

While the recent developments outlined in this *Client Alert* represent only another chapter in the on going saga of online protection of copyrights and the rest of the story is yet to be told (stay tuned for the resolution of *Viacom v. YouTube*), such developments may point to an increased responsibility of online content distributors to play a more proactive role in protecting the rights of

copyright holders, as well as a judicial expectation of greater cooperation from copyright holders in protecting their works.

Endnotes

- ¹ Order Granting in Part Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215 at 83 (Oct. 16, 2007).
- ² Proposed Order Re Appointment of Special Master, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541 at 6 (Oct. 25, 2007).
- ³ *Viacom International, Inc. v. Youtube, Inc.*, 1:07-cv-02103-LLS (S.D.N.Y.).
- ⁴ See Stephen Withers, YouTube betas Video Identification, ITWIRE.COM, <http://www.itwire.com/content/view/14870/53/> (last visited Nov. 7, 2007).
- ⁵ See Internet and Media Industry Leaders Unveil Principles to Foster Online Innovation While Protecting Copyrights, Press Release, Oct. 18, 2007, available at http://ugcprinciples.com/press_release.html (last visited Nov. 7, 2007).
- ⁶ While the scope of this *Client Alert* is to review certain US developments, please note that European jurisdictions are also requiring filtering measures be taken by online service providers in specific circumstances to combat notably piracy on peer-to-peer networks. For example, a Belgian court recently ordered Scarlet Extended (formerly Tiscali) to set up a filtering measure to fight piracy relating to musical works on peer-to-peer networks, in response to a complaint by SABAM, the Belgian Collecting Society for Authors, Composers and Publishers, which order is currently subject to appeal. *SABAM vs. SCARLET*, Brussels Court of First Instance, Judgment of June 29, 2007. In addition, a French court also recently sanctioned DailyMotion and Google because these service providers—in their capacity as Internet Hosting Providers (and not Publishers)—did not prevent the unauthorized new uploads of audiovisual works after they had been previously notified of their infringing nature. *Nord-Ouest Production vs. Dailymotion*, Paris Court of First Instance, Judgment of July 13, 2007; and *Zadig Productions et al vs. Google, Inc.*, Paris Court of First Instance, Judgment of October 19, 2007.
- ⁷ Available at <http://www.lw.com/Resources.aspx?page=ClientAlertDetail&publication=1352>.

- ⁸ *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).
- ⁹ *Id.* at 442. The defendants in *Grokster* profited by selling advertisements that would appear within the software, as well as by bundling other programs with their P2P file-sharing software.
- ¹⁰ *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
- ¹¹ *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. at 919. This is now known as the inducement theory of copyright infringement.
- ¹² Napster was a prior peer-to-peer file sharing system used to share copyrighted music illegally. It was sued by copyright holders and eventually shut down, before being reborn as a legitimate online retailer of copyrighted music. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); Benny Evangelista, Napster Runs out of Lives—Judge Rules Against Sale, *San Francisco Chronicle*, Sept. 4, 2002, available at <http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2002/09/04/BU138263.DTL> (last visited Nov. 7, 2007).
- ¹³ *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. at 940.
- ¹⁴ *Id.*
- ¹⁵ Order Requiring Further Briefing Re Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215, 1219 (Feb. 14, 2007).
- ¹⁶ *Id.*
- ¹⁷ Order Granting in Part Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215, at 71-72 (Oct. 16, 2007).
- ¹⁸ *Id.* at 72.
- ¹⁹ *Id.* at 73.
- ²⁰ *Id.* at 72-73.
- ²¹ Proposed Order Re Appointment of Special Master, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541 at 6-7 (Oct. 25, 2007).
- ²² Proposed Order Re Appointment of Special Master, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541, at 7 (Oct. 25, 2007).
- ²³ Order Granting in Part Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215, at 77 (Oct. 16, 2007).
- ²⁴ A hash value is a unique multi-character identifier that is associated with a computer file, and is the same for identical copies of such file. Any modification made to a file (e.g. shortening an audio file by one second), however, will change the hash value, which makes hash values a useful, but not determinative measure for identifying digital copies of audio, video and/or image files.
- ²⁵ Order Granting in Part Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215, at 78 (Oct. 16, 2007).
- ²⁶ *Id.* at 78.
- ²⁷ David King, Latest Content ID Tool for YouTube, The Official Google Blog, <http://googleblog.blogspot.com/2007/10/latest-content-id-tool-for-youtube.html>.
- ²⁸ Youtube, YouTube Video Identification Beta, http://www.youtube.com/t/video_id_about.
- ²⁹ YouTube Rolls Out Filtering Tools, BBC News, available at <http://news.bbc.co.uk/2/hi/technology/7046916.stm> (last visited Nov. 9, 2007).
- ³⁰ See *supra* note 5.
- ³¹ See Complaint for Declaratory and Injunctive Relief and Damages, *Viacom International, Inc. v. Youtube, Inc.*, 1:07-cv-02103-LLS (S.D.N.Y., Mar. 13, 2007).
- ³² Viacom Won't Withdraw Lawsuit Against Google's YouTube, *Studio Briefing*, <http://www.imdb.com/news/sb/2007-10-17/film/3> (last visited Nov. 9, 2007).
- ³³ *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. at 939.
- ³⁴ Order Granting in Part Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215 at 74 (Oct. 16, 2007).
- ³⁵ *Id.* at 62 (emphasis added).
- ³⁶ Order Granting in Part Plaintiffs' Motion for a Permanent Injunction, *MGM Studios, Inc. v. Grokster, Ltd.*, CV 01-8541:1215, at 4 (Oct. 16, 2007).
- ³⁷ *Id.* at 78.
- ³⁸ 17 U.S.C. § 512(c)(1), (d).

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If you have any questions about this *Client Alert*, please contact David O. Blood in our Los Angeles office or any of the following attorneys.

Barcelona

José Luis Blanco
+34.93.545.5000

Brussels

Andreas Weitbrecht
+32.2.788.60.00

Chicago

Marcelo Halpern
+1.312.876.7700

Frankfurt

Marcus Herrmann
+49.69.60.62.60.00

Hamburg

Joachim von Falkenhausen
+49.40.41.40.30

Hong Kong

John A. Otoshi
+852.2522.7886

London

Bryant B. Edwards
+44.20.7710.1000

Los Angeles

David O. Blood
+1.213.485.1234

Madrid

José Luis Blanco
+34.91.791.5000

Milan

David Miles
+39.02.3046.2000

Moscow

Mark M. Banovich
+7.495.785.1234

Munich

Jörg Kirchner
+49.89.20.80.3.8000

New Jersey

David J. McLean
+1.973.639.1234

New York

Kirk A. Davenport
Marc D. Jaffe
Eric J. Schwartzman
+1.212.906.1200

Northern Virginia

Eric L. Bernthal
+1.703.456.1000

Orange County

Patrick T. Seaver
+1.714.540.1235

Paris

Laurent Szuskin
+33.1.40.62.20.00

San Diego

Scott N. Wolfe
+1.619.236.1234

San Francisco

John M. Newell
Andrew S. Williamson
+1.415.391.0600

Shanghai

Rowland Cheng
+86.21.6101.6000

Silicon Valley

Tad J. Freese
Peter F. Kerman
Mark V. Roeder
+1.650.328.4600

Singapore

Michael W. Sturrock
+65.6536.1161

Tokyo

Michael J. Yoshii
+81.3.6212.7800

Washington, D.C.

Gary M Epstein
John G. Holland
William P. O'Neill
+1.202.637.2200